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Informal Funeral Insurance and Savings Schemes among Ethiopian Taxi Drivers in Boston

Introduction

For generations, communities in Ethiopia have managed their financial needs and life risks through informal mutual aid associations. The most prominent of these associations include the *iddir*, an emergency and funeral insurance group, and the *iquub*, a rotating savings and credit association (ROSCA). Within Ethiopia, these groups vary in structure, size, purpose, and procedures yet some common characteristics exist. In essence, the *iddir* is a type of insurance program run by a community or group to meet emergency situations, primarily funerals. The *iquub* is a community or group association that collects a fixed amount of money from each participant and then provides a lump sum to one of the participants on a rotating basis. In both associations, group members are often joined together by some commonality such as neighborhood, religious institution, or workplace.

Remarkably, Ethiopian immigrants have adapted these traditional financial tools to their new lives in host countries around the world. In this paper, I examine the use of *iddirs* and *iquubs* among Ethiopian immigrant taxi drivers in the Boston area. Specifically, I address the groups' objectives and operations, the motivations of participants, benefits provided by the groups, and how the groups' models vary from traditional models in Ethiopia. The information provided in the paper is based on face-to-face interviews I conducted with three Ethiopian-American taxi drivers who are members of either *iddirs* or *iquubs*: Solomon, Girma and Yohannes.¹

This research was motivated by an interest to understand the role of informal financial savings groups in the lives of Ethiopian immigrants. Having grown up in the Ethiopian-American community, I was aware of the existence of various community organizations such as

¹ All names have been changed to protect the anonymity of the interview subjects.

the *iddir*. However, it was not until studying microfinance that I realized this was common practice in societies around the world. Moreover, I had never really thought of these groups as financial tools but rather as social networks. Spending last summer in Ethiopia, interning at an NGO with a predominantly Ethiopian staff, I further realized how deeply and prominently mutual aid associations shape Ethiopian life. Nearly all my colleagues were involved in some kind of community savings group, if not multiple. As a collectivist culture with limited social protection provided by the state, community savings and insurance groups seem to fit well within the Ethiopian context. But why do such informal financial groups persist once people leave Ethiopia? Particularly, what advantage do they serve in the context of advanced industrial societies where formal financial institutions and social safety nets are more accessible? Do these groups serve as a way of strengthening social capital amongst Ethiopian immigrants or is their purpose primarily financial? My research reveals that these groups have both strong financial and social functions. While each group has clear financial functions, it appears that the *iquub* has a stronger social function than the *iddir*.

The Iddir

Overview

Solomon is the chairman of the *iddir* among Ethiopian taxi drivers, officially called the Ethiopian Taxi Driver's Funeral Association.² Now in his mid 50's, Solomon arrived in Boston in 1985 to continue his studies in engineering at a local university. As a student, Solomon drove a taxi on the side and upon graduating started work full time as an engineer. After working as an engineer for nearly a decade and tired of his regimented work life, Solomon went back to taxi driving.

When Solomon first started driving a cab in the mid 80's, he was not aware of an *iddir* among Ethiopian taxi drivers. In 2008, after the death of a fellow Ethiopian taxi driver, Solomon and five other drivers discussed the idea of starting an *iddir* amongst each other. This decision was provoked by witnessing the struggles that the deceased taxi driver's family endured in paying for his funeral expenses. Given the elaborate nature of Ethiopian funerals as well as the custom for the dead to have their bodies sent back to Ethiopia for burial, funeral related costs can

² The group name has been changed to protect the anonymity of the group members.

be exorbitant.

In Ethiopian tradition, the mourning period, known as *lekso*, takes place on average for three to four days but can sometimes last weeks. During this time, relatives, community members and old friends from across the country gather at the home of the deceased and “sit” with the relatives of the deceased for days at a time as a way of showing respect. Relatives of the deceased are expected to host *lekso*, which consists of providing traditional food, snacks, and drinks and renting chairs and sometimes a tent. Amongst those who knew the deceased or the family of the deceased, not showing up for *lekso* is considered a great sign of disrespect and can lead to breaches of kinship. Therefore, it is not uncommon for over 100 people to participate in *lekso*. According to Solomon, the cost of *lekso* can range from \$500 to \$2000.

In addition to the *lekso*, there is the cost of the actual funeral. Among the Ethiopian community, it is common to send the body of the deceased back to Ethiopia for burial, particularly if the deceased were born in Ethiopia and have a significant amount of family still living there. In many cases, people are also buried in the United States. The costs associated with holding a funeral in the US include both the costs of the funeral home services and the cost of hosting a lunch for funeral attendees, which usually takes place at a hall and can include hundreds of guests. According to Solomon, the cost of funeral expenses for either sending the body back to Ethiopia or for holding a funeral in the United States, average to about the same amount of \$10,000.

Structure and Operation

When I asked Solomon how he knew how to establish an *iddir*, he explained that almost everyone who had been raised in Ethiopia had been involved in an *iddir* in some way throughout their lives. In his case, his parents had been involved in a neighborhood *iddir*. He noted that in Ethiopia, joining the neighborhood *iddir* was expected of people and was understood as the community’s way of collectively managing risk against emergencies.

The Ethiopian Taxi Driver’s Funeral Association is a registered non-profit organization and adheres to a formal structure and strict by-laws. As written in the by-laws, the main purpose of the organization is to fund emergencies related to death, which primarily means funeral related expenses, but can also include sickness. Membership is exclusive to Ethiopian taxi drivers, and a hackney (taxi) license is required for entry into the group. The group is explicitly

non-political and non-religious in affiliation. The basic requirement for members is a monthly contribution of \$30. With approximately 100 people currently in the group, this averages to \$3000 per month for a total of \$36,000 annually.

The leadership consists of an executive committee consisting of four officers—a Chairman, Secretary, Treasurer and Auditor—and three members that oversee the association's management in conjunction with the officers. Despite the overall formal structure of the organization, the system for collecting deposits is rather fluid. Members are required to simply give their contribution to members of the executive committee before the end of the month, which normally happens through casual run-ins on the taxi route. Solomon explained that this system works rather efficiently and it has not been necessary to hold organization-wide meetings every month. Moreover, in place of monthly meetings, the executive committee maintains regular communication with association members through an email list serve. Upon handing their money to an executive committee member, members are issued an official receipt of deposit. Once the money is collected by committee members, it is given to the treasurer, who then deposits it in the organization's bank account. The treasurer also keeps track of all transactions through a bookkeeping system, which is overseen by the auditor.

The executive committee meets once a month to discuss group operations and to decide on the use of funds when a crisis emerges (decisions are taken in accordance with the by-laws). These meetings are strictly association focused and take place for no more than one hour, usually during a lunch break. When a decision is made to dedicate funds for a particular emergency, money can only be withdrawn from the bank with the signatures of the chairman, treasurer and secretary. According to the by-laws, funds can be used for all matters related to death and serious illness. Benefits extend to members' spouses and children under 18. While I did not see the by-laws, Solomon explained that there are set amounts allocated for specific situations. For instance, \$500 is allocated for *lekso* while \$10,000 is allowed for funeral expenses (either the cost of holding funeral services or sending the body to Ethiopia). In cases where the body is sent to Ethiopia, the \$10,000 is used towards the cost of sending the body, holding funeral services in Ethiopia, and other incidentals. In one case, *iddir* funds were not only used to send the body of a deceased female taxi driver to Ethiopia but also to buy her sister a plane ticket to Ethiopia. While the usual sum of \$10,000 covers most funeral related expenses, the *iddir* does not cover the cost of a tombstone. In the event of serious illness, members are allocated a certain amount to cover

any expenses not covered by health insurance or to supplement for income lost from work. This amount is determined by the executive committee on a case-by-case basis.

In addition to financial assistance, the Ethiopian Taxi Driver's Funeral Association provides other services to family members of the deceased. In the event of a group member's death, the *iddir* plays a key role in facilitating all tasks related to the *lekso* and funeral arrangements. Immediately after the death, the executive committee meets to divide the various tasks among group members. These tasks range from coordinating with the funeral home and making arrangements to have the body sent back, to figuring out who will pick up food and rental chairs for the *lekso*. During the *lekso*, group members take the lead in distributing bread and drinks to attendees. Moreover, Solomon explained that the wives of taxi drivers³ are expected to assist with preparing food for the *lekso* and funeral lunch. Additionally, at the funeral services *iddir* members usually serve as pallbearers. According to Solomon, such services are a way of offering the family moral support and showing that the community is behind them during their time of need.

Benefits of Participation

Based on my interview with Solomon, the benefits of participating in the *iddir* seem to be fairly obvious. It is an efficient way to insure against future emergencies, particularly death related expenses, and involves very little commitment (of both time and money) and low transaction costs. Moreover, given that many Ethiopians are accustomed to the concept of an *iddir* and community based mutual aid associations, it was not a tool that needed much explanation or a trial and adjustment period. According to Solomon, in the early stages of the group formation, everyone easily recognized the need for the *iddir* and accepted the rules without much objection or difficulty. Although late deposits are penalized with a \$5 fee, Solomon said late deposits rarely occur. The organization seems to run fairly seamlessly.

I started this research curious to understand if the *iddir* could be thought of as an alternative to formal financial tools offered in the United States. In particular, I wanted to know if the *iddir* was providing a similar service to a formal tool that was inaccessible or unattractive to Ethiopian immigrants. When I asked Solomon if the *iddir* was a substitute for formal financial tools, he was quick to suggest that most Americans do not have burial insurance. While it was

³ Most members of the Ethiopian Taxi Driver's Funeral Association are men.

difficult to find data verifying Solomon's suggestion, approximately only 44% percent of Americans have life insurance, which can include burial insurance.⁴ From this perspective, it seems that members of the Ethiopian Taxi Driver's Funeral Association are not outside of the norm. As formal life and/or burial insurance seems to be inaccessible (or unattractive) to most Americans, it seems strange to discuss the *iddir* as an alternative to a formal financial tool or to suggest that its members are somehow uniquely excluded from the formal sector, as a viable formal option does not seem to exist for most Americans. Moreover, Solomon explained that everyone in the group has formal bank accounts, which suggests that members are not isolated from formal financial systems. Rather than serving as a substitute for a formal tool (life or burial insurance), the *iddir* seems to offer a service that group members see as missing from the formal sector.

To a smaller degree, the *iddir* seems to offer social benefits to group members. When I asked him about the social benefits of the group, Solomon took pride in telling me that *iddir* members were providing "great community work." As a member of *iddir*, should you pass away or experience a death in your family, you have the assurance that your family will not only receive financial support but also assistance with all logistical aspects of the funeral services as well as moral support from the *iddir* group. This seems to be a powerful social benefit given that most Ethiopian immigrant families lack the same type of extended family and community support that they once had in Ethiopia. Solomon also mentioned that *iddir* members get special recognition by the priest and other community leaders during funeral services.

As a community based association, group solidarity also plays a role in the advantages offered by the Ethiopian Taxi Driver's Association. Within the group, there are cohorts of members who are close friends. In one example Solomon shared, a taxi driver fell seriously ill two months after joining the group. Although he had been part of the *iddir* for a short time, Solomon said he was still seen as a member of the association. Group members visited him during his hospitalization and offered moral support to the family. In addition, a core group of his friends continued to pay his contribution to the *iddir* in his absence. A few months later, when the taxi driver passed away, *iddir* funds were used to pay for his funeral.

⁴ Data from: http://usatoday30.usatoday.com/money/perfi/insurance/2010-12-03-1Alifeinsurance03_ST_N.htm

The Iquub

Overview

According to Yohannes, the motivation to start an *iquub* came from a desire to carry on with a tradition that came from “our father’s fathers and their fathers.” He and Girma were among the original founders of an *iquub* among Ethiopian taxi drivers that began 20 years ago (1993). Both Yohannes and Girma came to Boston on student visas around 1974, shortly after the Ethiopian revolution. While attending university, both worked part time as taxi drivers. After earning a degree in mechanical engineering, Yohannes worked as an engineer for seven years before going back to driving a taxi. When I asked him why he left his career as a mechanical engineer, he raised his hands and exclaimed, “For the independence, you see!” Twelve years ago, Yohannes purchased a taxi medallion. Like Yohannes, Girma was attracted to the taxi business for the freedom it offers. After earning a degree in political science, he started driving a taxi on a full time basis. In 1982, he purchased a taxi medallion for \$33,000, which is valued at \$600,000 today. Ten years ago Girma also opened a limousine company.

The *iquub* is a type of ROSCA present throughout urban and rural Ethiopia. It is not uncommon for people to belong to multiple *iquubs* as it is a major component of Ethiopian social life. As a university student in Ethiopia, Girma was not part of an *iquub* but was familiar with how it worked due to his family’s participation in his neighborhood *iquub*. Girma explained that the way *iquub* is practiced in Ethiopia is quite different from how it is practiced among immigrants in the United States. According to Girma’s description of *iquub* in Addis Ababa, it is usually composed of 100 to 200 people, most of whom are business people or members of the elite. Amongst large *iquubs* in Addis Ababa, membership is usually limited to those from wealthier households, as collateral (usually a house) is needed for participation. In contrast, Girma explained that *iquubs* in Ethiopian immigrant communities are usually smaller and more heavily based on trust. Additionally, Girma and Yohannes affirmed that in both Ethiopia and abroad, *iquubs* have a strong social function. Prior to coming to the United States, Yohannes had not participated in an *iquub* in Ethiopia since he was serving in the navy. He explained that *iquub* does not take place within the military and only exists in civilian life.

Structure and Operation

The *iquub* that I researched is largely informal in structure and operation and has no official name. It is one of several *iquubs* that exist among Ethiopian taxi drivers. Unlike the *iddir*, it is not a registered organization. There are no written rules. Nor are there specifications for how the funds should be used. As in Ethiopia, there is one main leader known as the *dagna* (the judge) who oversees operations and keeps track of who receives the payout each month. The *dagna* is also responsible for ensuring that everyone contributes. There are currently 11 people in the group and each person contributes \$1000 per month, for a total of \$11,000 each month. The group meets monthly to conduct the lottery, which is facilitated by the *dagna*. Late arrivals are penalized by a \$20 fee. At the meeting, member names are placed into a hat and the name drawn by the *dagna* wins the payout, known as *ita*. The cycle continues for 11 months, with winners from the previous months removed from each round. Payouts are given strictly on the basis of a rotating lottery and are not determined by need. If someone from the group needs the *ita* for a particular purchase one month, he or she must discuss it with the lottery winner to work out a deal. After each person has received *ita*, the *iquub* starts over and a new *dagna* is elected by the group. Girma noted that the flexible and informal nature of this system has worked quite smoothly throughout the life of the *iquub*.

The group formed by Yohannes and Girma has consisted of 10 to 11 members over the last 20 years. During this time, people have joined and left the group several times, however a core group of five members has remained intact. Originally, the group was composed only of taxi drivers but now includes several non-taxi drivers. Though primarily comprised of men between the ages 50 and 65, the group has included women and members as young as 25 years old. As explained by Girma, all taxi drivers are medallion owners and other members are either business owners or professionals. All members have formal bank accounts. Both Girma and Yohannes mentioned that they could not let “just any taxi driver” in the group—individuals have to own a taxi medallion or other assets that guarantee their ability to pay. Moreover, risk is managed by requiring that the person who wins the payout provide a cosigner as collateral for the other participants who have not yet received their *ita*. Additionally, new members are automatically required to receive their payout at the end of the *iquub* cycle.

Trust is arguably the most important component of the *iquub*. When I asked Yohannes if he was ever worried about someone in the group running off with the payout before contributing

his turn, he laughed and responded with, “Don’t you see? This would never happen. Our trust is up to the roof!” He emphasized this last point by raising his hand above his head and pointing to the ceiling. In addition, Girma explained that trust was the main reason for the group’s longevity and success. He further explained that it was this tight-knit network of trust that allowed the group to offer both security and flexibility. In the event that someone cannot pay one month due to special circumstances, group members contribute on the person’s behalf. High levels of trust allow for such flexibility in group operations.

Benefits of Participation

Interestingly, when I asked Yohannes and Girma about the main benefits of *iquub*, the first thing they each noted was the group’s social benefits. Yohannes said that going to monthly *iquub* meetings was a way to relax and “leave the pressure of life behind.” Monthly meetings usually take place on Sunday afternoons at a group member’s house and often resemble a party like atmosphere with food, beer, wine, and music. Group members each contribute \$25 towards food and drink. Only group members attend these meetings—spouses and children are not invited. The lottery happens amongst discussions about sports, politics, and community news.

Although the financial benefits of *iquub* seem that they would be the greatest motivation for participation, I was surprised that these benefits were not immediately addressed by Girma and Yohannes. Rather, they both spoke at length about the group’s social function. My guess is that they did not immediately address *iquub*’s financial benefits because they seemed obvious or because they did not want to discuss private financial matters, such as their use of payout funds. However, I gained some insight upon further probing. Girma noted that it was a fast, fun and secure way to get money. He also said that *iquub* provides a savings discipline that is difficult to uphold on your own and it has helped him achieve financial goals. Both Girma and Yohannes said that *iquub* was a better option than a bank loan as they could borrow without interest. Girma also noted that the *iquub* system could be particularly useful for newcomers who lacked a credit history and could not obtain loans from the bank. Such statements reveal *iquub*’s powerful role as both a savings and credit tool.

In what ways has the *iquub* helped members achieve their goals? Girma noted that a monthly payout could be used immediately to put a down payment on a car or towards wedding expenses, but not for bigger purchases like a house. For larger investments, such as a house or

taxi medallion, group members would save the lump sums from *iquub* over several cycles and let it accrue in a bank. Girma believes that more often than not, *iquub* funds are used for long term savings, however, he noted that group members usually do not discuss how they use their payout. Girma has used his payout to buy plane tickets to Ethiopia, which range from \$1200-\$2500, take vacations with his wife, send lump sums to his family back in Ethiopia, and cope with family emergencies. Yohannes often contributes his payout towards his business expenses, such as annual taxi insurance of \$5000 and the purchase of a new taxi. Taxis need to be replaced every six years, which can cost up to \$30,000. Recently, Yohannes was able to buy a new taxi in cash using money from his savings and his \$11,000 *iquub* payout.

Conclusion

Amongst Ethiopian communities, both within Ethiopia and abroad, informal savings groups play a significant role in generating social capital and providing unique financial tools. Within Ethiopia, community savings groups provide a way to strengthen social ties, cope with emergencies, and overcome the limitations of formal financial institutions. These groups provide a similar function among Ethiopian immigrants within the United States. From the financial perspective, the *iddir* and *iquub* offer Ethiopian taxi drivers superior financial products than those offered in the formal banking system. Moreover, these tools provide them with the additional benefit of community support.

The three individuals I interviewed share common characteristics, which seem to provide insight on both Ethiopian taxi drivers and the role of informal savings groups. Independence and flexibility were key themes that underpinned the choices made about their professions and financial tools. Although each driver was university educated and had the choice to work in their field of study, they all preferred the freedom that comes with driving a taxi. Many noted that it provided greater flexibility in their schedules (allowing them to take vacations to Ethiopia at their discretion) and offered greater pay. Similarly, while all three drivers had formal bank accounts and access to more sophisticated financial products, *iddir* and *iquub* allow them to handle their finances in a more independent and flexible manner. Finally, given that taxi drivers primarily operate in a cash economy with high money velocity, the *iquub* seems to fit well within their lifestyle.