

THE NEW GEOGRAPHICAL ECONOMICS OF NON-PROFIT ORGANIZATIONS:

Explaining the Agglomeration of Development NGOs

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ABSTRACT

Theories on the location decisions of non-profit organizations still cast non-profit organizations on a one-dimensional axis with on one side altruistic organizations only considering the needs of a population and on the other side rent-seeking organizations claiming to work for the poor. Neither of them can adequately explain the strong patterns of agglomeration that are taking place in the case of development NGOs. The new geographical economics of non-profit organizations that this paper develops succeeds better in explaining their geographic agglomeration. This new geographical economics of non-profit organizations uses core concepts from new geographical economics, such as increasing returns to scale, labour mobility, path dependency and learning to explain the agglomeration of development NGOs. Our case study of development NGOs in Arusha, Tanzania, suggests that self-reinforcing processes lead to an agglomeration of NGOs. This paper stimulates NGOs and back-donors to critically review their allocation processes as these processes of agglomeration are simultaneously processes of exclusion.

Keywords: Location theory, geographical economics, NGO, development aid, Tanzania, Central African Republic.

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1. INTRODUCTION

This paper suggests that current non-profit location theories have certain shortcomings. They still view non-profit organizations on a one-dimensional axis with on one side altruistic organizations only considering the needs of a population and on the other side rent-seeking organizations claiming to work for the poor. These theories virtually all use neo-classical supply (funding) and demand (need) framework.² However, these can not explain the strong patterns of agglomeration of non-profit organizations. (Gronbjerg and Paarlberg, 2001, Wolch and Geiger 1983, Weisbrod, 1988, Gauri and Fruttero, 2004, Yontcheva and Masud, 2005, Zeller et al, 2001).

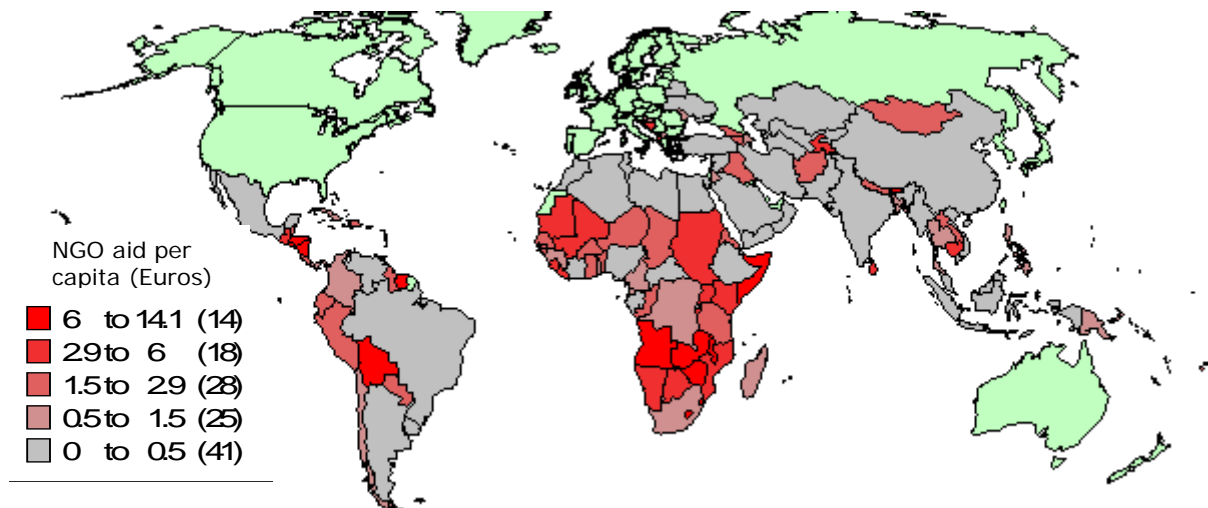
This paper proposes a new non-profit location theory; the new geographical economics of non-profit organizations. This new theory succeeds better than current non-profit location theories in explaining existing patterns of geographic agglomeration of non-profit organizations, in this case development NGOs (Non-Governmental Organization). Our theory uses core concepts from new geographical economics, such as increasing returns to scale, labour mobility, learning effects and path dependency and applies them to the non-profit context.³ We argue in this paper that many of those new geographical elements that can explain agglomeration of for-profit companies, can also explain the agglomeration of non-profit organizations. The policy relevance of this research lies in the insights it provides in cluster formation for NGOs, which could stimulate NGOs and back-donors to review their allocation processes. At the eve of increasing aid flows, and with an ever larger share of this aid being spent through NGOs, their allocation decisions merit attention.

This paper starts by showing that there is a strong process of agglomeration taking place in the non-profit-development sector. We do this by analysing the country-wise allocation of 50 of world's largest international development NGOs. We continue by outlining the contours of the proposed new geographical economics of non-profit organization theory, thereby drawing extensively on regular new geographical economics. We proceed by explaining how we will apply the theory to one of the regions where agglomeration is taking place, Tanzania.⁴

The agglomeration of development NGOs

Map 1 shows the agglomeration of development NGO activity. Based on data of 50 of the world's largest development NGOs (see annex 1 for an overview of international NGOs in this sample and how they were selected), this map displays per capita expenditures (euros) for the developing countries. The darker the countries the more they receive per capita. As the scale indicates it is clear that certain countries receive more than 20 times as much per capita (Zambia, Uganda, Nicaragua etcetera) than others (Central African Republic, Yemen, Guinea, Nigeria etcetera). Also within countries there are processes of agglomeration, as we will see in the case of Tanzania.

Map 1: Distribution of NGO aid in 2005 (Euro per capita)



²There are some notable exceptions, such as Bielefeld and Murdoch (2004)

³Some argue that new geographical economics is in fact old economic geography (Brakman et al; 2001). The origin of these ideas does not affect the argument of this paper, namely that these ideas have been insufficiently applied to the non-profit context.

⁴There is quite some research on the location of global civil society networks, such as Smith and Wiest (2005). Different forces are at play for this kind of organizations. They fall outside the scope of this research.

Current theories of non-profit location theory focus on demand and supply factors. Firstly, if demand factors were the most determinant factor for development NGOs, NGO aid would be distributed equally amongst the poor countries. This world map of development NGO allocations shows that this is not happening, as certain poor countries are largely bypassed by development NGOs. This might be explicable for repressive regimes such as North Korea and Turkmenistan where foreign funding is virtually forbidden. Nevertheless, for scores of other countries such as Guinea, Yemen, and the Central African Republic this cannot be explained by the logic of demand and supply. Secondly, if supply factors (funding) were the only determinant of NGO allocations, an agglomeration of development NGOs would take place in those countries for which large sums of funding are available. Yet, agglomeration in those countries is not as strong as in geo-strategic unimportant countries such as Zambia, Malawi and Nicaragua. In sum, current theories on non profit location theory cannot explain current agglomerations in development NGOs.

2. THE NEW GEOGRAPHICAL ECONOMICS OF NON-PROFIT ORGANIZATIONS

Neo-classical economics assumes that economic development would be equally distributed among countries and regions, as the returns on capital would be higher in capital scarce regions. Capital would consequently flow to those regions, stimulating equitable economic development. Krugman (1991, 1998) countered these assumptions with his influential work of new-geographical economics. Referring to empirical reality, namely that a strong agglomeration of companies was found in particular countries and regions, he reached the conclusion that many other causes than just capital scarcity, such as increasing returns to scale, labour mobility, and path dependency are driving investment decisions of companies. The current research will show that in the non-profit similar explanations hold.

Increasing returns

Increasing returns to scale are one the principal factors contributing to agglomeration. Increasing returns to investment, or aid in this case, emerge because of two types of economies of scale: internal (within an organization) and external (between organizations). Firstly, internal economies of scale arise when an organization can achieve more of its aims when it clusters its activities. In the case of NGOs that work with field offices; it is more efficient to reduce the number of countries where they are active. The overhead that is needed to construct a new building in a new country can more effectively be used to hire another program officer in a country where the organization is already present.

External economies of scale arise when a set of organizations can achieve more of their aims when they cluster their activities. New geographical economists show that a decrease in average costs, for instance because of sharing costs, cheaper inputs and knowledge spillover stimulates organizations to locate near each other (Venables, 2001).⁵ These knowledge spillovers, also called learning effects, are important as they improve the investment climate. The importance of proximity in stimulating these learning effects is well documented, as proximity stimulates processes of collective learning and the exchange of tacit knowledge (Saxenian, 1994; Maskell and Malmberg; 1995).

Labour mobility

The mobility of international NGO staff contributes to agglomeration of NGOs. Labour mobility stands for the flexibility of workers to move from one region to another. The factor driving people to migrate to another region is a higher real wage. If real wages (or the quality of life) are higher in another region, a share of the labour force is likely to move. Nevertheless, not everybody is that flexible; the model assumes a part of the labour force to be immobile, not reacting to loan fluctuations between regions. These immobile workers make sure that there is always demand in both regions; it is a spreading force. International NGO staff can be considered internationally mobile and considered to contribute to agglomeration; they move from 'hotspot' to 'hotspot', be it Kosovo, East-Timor or Sri Lanka, whilst local staff is less mobile; restrained by e.g. visa and education requirements (though mainly mobile within the country).

The movement of labour is not without consequences. The labour market for personnel with particular skills expands in these agglomerations. The past and present organizational arrangements are an important factor explaining new organizational growth, as it strengthens the organizational capacities of a population (Lincoln, 1977). He found that the strongest predictor of any one category of voluntary association is the presence of other voluntary organisations. In the case of development NGOs it is clear that the discourse that local organizations need to master to obtain international funding, such a log frame analysis, requires training. Once local organizations master these skills, other international NGOs are more likely to fund these organizations too, contributing to further agglomeration of non-profit organizations.

⁵ This paper does not deal explicitly with 'transport costs' that plays a prominent role in new geographical economics. This theory states that higher transport costs result in more dispersed production facilities. This research focuses not so much on the location of production facilities (NGO offices) per se, but whether targets population are reached at all, making the transport costs discussion somewhat less relevant.

Path dependency

Path dependency refers to the process in which choices that are made in the past narrows the current room to manoeuvre. Past choices of development organizations still resound today. An empiric analysis of NGOs shows that geographic choices are to a high degree path dependent. This is shown by a longitudinal analysis of decisions of Dutch NGOs over a 17 year period (Koch and Yontcheva, 2007, forthcoming).

Bebbington argues that path dependency occurs with development organizations because choices and policies create institutions and vested interests which will attempt to perpetuate themselves. Research on the location decision of NGOs by Bebbington – at the sub national level - suggests that location decisions are generated through social networks and institutions that both underlie and precede the existence of the agencies. He claims that personal contacts of relevant officers are of importance and notes that those personal contacts 'are not accidental, and have a great deal to do with the institutions, social network, histories and political economic contexts within which they are embedded' (2004: 736). Not only networks, but also the effects of past investments on current levels of professionalization of organizations have a path dependency entrenching, and thus agglomeration, effect. International capacity building organizations will target those regions where a local NGO sector is already emerging. When this capacity building organization is successful, local civil society can present themselves stronger towards international donors. International donors will consequently increase funding to organizations in this region, stimulating further agglomeration of organizations in the region.

Factors that counter agglomeration in the model are congestion costs, which Krugman refers to as external diseconomies of scale. When economic activities concentrate and realize an agglomeration, costs of pollution, traffic jams and increasing land rents come into play. These problems are due to limited space and resources.

In sum, new geographical economics makes location endogenous, and gives room for an 'often decisive role for history, accident and perhaps sheer self-fulfilling prophecy' (Krugman, 1991) Because of the path dependency a stable equilibrium is not always the most efficient or welfare maximising one. In the methodology section we describe how we researched whether Krugman's predicament also holds for the non-profit sector.

3. METHODOLOGY

This case study attempts to shed light on the determinants of why NGOs agglomerate their activities. One country is selected where agglomeration is taking place: Tanzania. Data on the expenditures of 51 of the world's leading international NGOs show that these organizations spend more than 50 million Euros annually in Tanzania. Tanzania is not an extreme case; international NGOs spend about 1.5 Euro per capita in this country. Tanzania falls in the middle category in terms of agglomeration (see map 1). It is comparable to countries such as Nepal, Senegal and Ecuador. Yet, within Tanzania there is actually quite a high degree of agglomeration (see annex 2). These other countries might just as well have been chosen for a case study.⁶

The Arusha region was selected for this research since an agglomeration of NGO activity is taking place. 45% of the country's NGOs are in Dar es Salaam, followed closely by Arusha. In general, there is a strong bias towards urban areas (United Republic of Tanzania, 2000 in Mercer, 2003, Zoete, 2006, Devdir, 2007, Tango, 2001, Taylor, 2004, May and Magongo, 2005). Particular regions are disproportionately well-represented and commentators have criticised organizations for their neglect of the poorest and geographically remote parts of the country (The Express in Mercer, 2001). Dar es Salaam was not selected as the agglomeration of NGOs can probably be explained by other factors, such as the political function it has as (former) capital of Tanzania (Taylor, 2004). Agglomeration in a region such as Arusha is less straightforward and requires explanations beyond the traditional theories on non-profit location. Zoete's research on the allocation of foreign aid to civil society organisations in Tanzania, shows a significant concentration of organizations in the Arusha region. Almost 20% of foreign funded NGOs are active in this region, while it inhabits only 4% of the country's population (Zoete, 2006, Tanzania National Website, 2003). The Arusha region has approximately 1.3 million inhabitants (Tanzania census 2000). For a population controlled spread of organizations over Tanzania see the map in annex 2.

This paper makes use of mainly two methods (1) a Q-questionnaire of 41 OECD based international development NGOs; (2) semi-structured interviews with 47 development NGOs with offices in the Arusha region.⁷ The results of the Q-questionnaire provide insight in the determinants of international donors

⁶ Since the Netherlands Ministry of Foreign Affairs funds this research Tanzania was chosen; many of the Dutch NGOs are present there.

⁷ The Q-methodology has as a unit of analysis the national level. The semi-structured interviews all took place at the sub-national level. Despite these different levels we feel confident about linking the results of the Q-methodology with semi

with respect to funding development NGOs in Tanzania, and to which extent determinants fall within the scope of new geographical economics. The semi-structured interviews in the Arusha region with development NGOs provide insight in the level of agglomeration of NGOs in this region, as well as to which extent elements that are highlighted by the new geographical economics are actually present in the region. We have chosen for this two-track approach to highlight the interaction between agglomeration effects in the field and decisions of donors in the headquarters, which according to us are mutually reinforcing.⁸

The q-questionnaire of OECD based international development NGOs

The Q-questionnaire is a combination of a qualitative and quantitative research method in which respondents work by means of relative visual ranking. In this case they ranked reasons why they are (not) active in Tanzania and in the Central African Republic. We use the Central African Republic as a benchmark of a country where no agglomeration is taking place.⁹ Q methodology is a means of extracting subjective opinion. The aim of the Q-methodology is not to obtain the truth, but to collect and explore the variety of accounts people construct. The instrumental basis of Q methodology is the Q sort technique which conventionally involves the rank-ordering of a set of statements from agree to disagree. It requires the participant to sort a number of items along a continuum. This usually consists of between 10 and 100 items (the 'Q set') (Cross, 2005). If participants had the feeling that the cards did not have all relevant argumentation, they could fill in additional cards themselves and sort those as well.¹⁰ The Q-methodology is a valid way of discovering the various argumentations that are used for making geographic choices, as these are often complex, messy, political decision processes, without clear formal guidelines. The Q-methodology allows for this diversity of actors and factors that influence the decision process.

The sample for the Q-questionnaire is based on extensive web-research. All development NGOs which matched the criteria, as described in annex 1, were invited to participate. This resulted in a list of 103 international organizations. The average turnover of the organizations was 93 million Euros. Headquarters of organizations were based in amongst others Japan, Australia, The United States, The United Kingdom, Switzerland, Germany, Norway, the Netherlands, Spain and France. The response rate was 41 percent. Those organizations spend 50 million Euro in Tanzania (and about 1.2 million Euros in the Central African Republic). There is no reason to believe that there is a sample selection bias.

Semi-structured interviews with development NGOs based in the Arusha region

In the Arusha region structured interviews were held with managers of NGOs. The criteria to be invited for an interview were: (1) be independent from the government and non-profit; (2) foreign funded (3) be executing development projects in the Arusha region (4) have an office in the Arusha region.

This resulted in a list of 72 potential organizations, which comprised local, national and international organizations. We do not deal with these three types of organizations separately in this paper as they all contribute to the agglomeration, which is the focus of this article. Of this list 47 were interviewed, representing a response rate of 65%. There could be a marginal sample selection bias as both the number of organizations on the list of the more remote districts might be lower, and the response rate in those districts is relatively lower. This needs to be considered when analyzing the results. The results of the structured interviews were discussed in three reporting events with the organizations, and generally, organizations showed that they recognized the findings.

4. RESULTS

Virtually no NGO existed in Tanzania only 20 years ago (May and Magongo, 2005; Igoe, 2003; Mercer, 2003; Shivji, 2004). After the gradual liberalization of the political and economic system of Tanzania, which coincided with Nyerere stepping down from power, the number of organizations started to increase continuously. The continuous increase in new NGO formation, also known as the 'mushrooming of NGOs' indicates a process of agglomeration (Klinken, 2003).

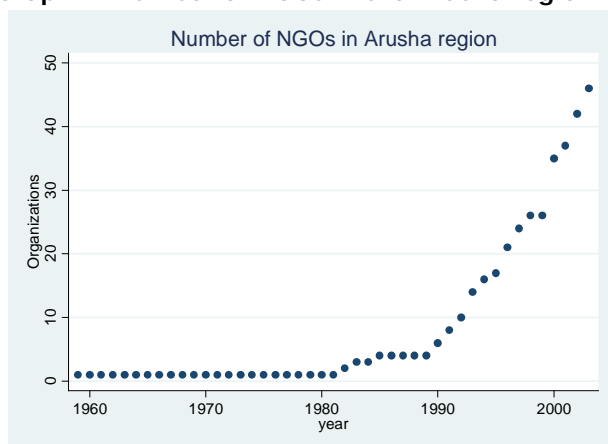
structured interviews in the Arusha region. For most international NGOs the first geographic selection criterion is the country level, not the sub-national level. They make use of national level information to make their decisions. The situation of NGOs in Arusha is not representative for the rest of Tanzania; the NGO sector in the Arusha region is more developed. The answers on the Q-questionnaire related to the size and strength of the NGO sector in Tanzania probably have a downward bias, as respondents include their general view of NGOs in Tanzania, not just the situation in the Arusha region. We need to keep this in consideration when interpreting the results.

⁸ Whilst in the semi structured interviews in the Arusha region respondents were asked to report on the current situation and on it 10 and 5 years ago, the Q-questionnaire only focused on the situation in 2007. Causal effects are therefore hard to test. To strengthen the case of mutual reinforcing patterns of donor decisions and local consequences, we will juxtapose the results of the Q-questionnaire with respect to Tanzania to those of the Central African Republic, where no agglomeration is taking place.

⁹ The Central African Republic is a good benchmark as it has some similar characteristics: poverty levels are similar, there are no civil wars, there are some refugees in one part of the countries, and NGO legislation is similar.

¹⁰ As there is no physical possibility to engage in this Q-ranking in this research (respondents are dispersed around the globe), the Q-ranking took place in a digital way.

Graph 1: Number of NGOs in the Arusha region.



This agglomeration is confirmed by the number of people that NGOs employ. Whereas the modus of NGOs in 1996 was 1 to 2 employees, this rose to 3 to 5 in 2001 and to 6 to 10 in 2006. The median of international donors per organization was 1 in 1996, 2 in 2001, and 3 in 2006. Thus it is not just the number of organizations that has increased dramatically, also their size and their international connections. Throughout the period, international donors were the main driver of this growth. During the entire period approximately 50 % of the organizations depended for more than 80% of their income on international organizations. This percentage remained stable between 1996 and 2006.

Explaining NGO agglomeration

In this part we will determine to which extent new geographical economic factors can explain the agglomeration of NGOs in the Arusha region. The first evidence we present are the results of the Q-methodology. On the cards 12 arguments were written that could affect the decisions on involvement in Tanzania and the Central African Republic. These arguments were composed on the basis of 20 in depth interviews with managers of NGOs (Koch et al 2007; forthcoming). Of those 12 arguments, five were related to new geographical economics; the ‘capacity of local partners’, the ‘potential for results’, ‘informal networks’, the ‘local climate for NGO operations’ and ‘overhead concerns and spending pressure’. These arguments are part of the new geographical economic theory as they have a clear endogenous element: When the involvement of international NGOs increases, the capacity of local partners and the potential for results increases etcetera. Seven other cards are assumed exogenous in this paper and do not relate to new geographical economics: the ‘needs of the population’, the ‘general image of country’, the ‘preference of donors’, ‘possibilities for local funding’, the ‘preferences of the general public’, the ‘local security situation’ and ‘local corruption’. If there are indeed new geographical economic tendencies, the five related arguments should significantly more often be mentioned as a relevant argument to get involved in Tanzania than in the Central African Republic.

Table 1: Q-questionnaire results: difference in argumentation of international development NGOs on involvement in Tanzania and the Central African Republic

Argumentation	% of international NGOs that called it a major or minor argument in favour of involvement in		Difference
	Tanzania	Central African Republic	
Local climate for NGO operations	79%	0%	79%
Capacity local partners	71%	0%	71%
Potential for results	100%	33%	67%
General image of country	63%	0%	63%
Absence of informal network (argument against involvement)	0%	33%	-33%
Overhead concerns and spending pressure (argument against involvement)	33%	67%	-33%
Preference of general public	29%	0%	29%
Local security situation	54%	33%	21%
Local corruption	0%	0%	0%
Preference of donors	63%	67%	-4%
Possibilities for local funding	25%	33%	-8%
Needs population	88%	100%	-13%
N	24	3 ¹¹	

¹¹ The N for the Central African Republic is very low, as in this sample only NGOs that were active in a certain country were included. When all respondents are included the results are basically the same.

Of the six most important differences in argumentation between locating in one of the two African countries, five are related to new geographical economics. Relatively more international NGOs that were active in the respective countries argued that 'the local climate for NGO operations' was an argument in favour of involvement in Tanzania. This also held for the 'potential for results' and the 'capacity of local partners'. The 'general image of a country' is the mostly quoted argument which is not related to new geographical economics and for which a large difference between answers on Tanzania and the Central African Republic occurred. International NGOs claimed that the 'absence of an informal network' and 'overhead concerns' were less important arguments against involvement with respect to Tanzania as opposed to the Central African Republic. Organizations were invited to add additional arguments. International NGOs that made use of this possibility mentioned arguments such as 'we have already been active in Tanzania for various decades'.

The table suggests that location choices of international NGOs, just as in the case of for-profit firms, should be considered endogenous; e.g. past involvement increases organizational capacity of local organizations, which attracts again more foreign donors, which again increase the organizational capacity of local organizations. This creates some kind of circular causality (Brakman et al., 2001). The same holds for the potential to obtain results; the more NGOs are active, the easier it becomes to achieve results, the more NGOs become active, again making it easier to obtain results etcetera. This is not to suggest that there might not be an innate difference on these elements prior to agglomeration. Unfortunately, we do not have data on the argumentation of donors on their involvement in Tanzania 10 years ago. That would have enabled us to look at the situation over time and draw conclusions on causality; now we have to contend with suggesting that the stark differences in argumentation on involvement of NGOs in Tanzania and the Central African Republic suggest that new geographical economics provide an interesting insight in the location choices of NGOs. To enhance the robustness of our finding that NGOs respond to new geographical economical elements we now turn to the findings of the semi-structured interviews in the Arusha region. We will focus on (a) increasing returns to scale; (b) labour mobility and (c) path dependency.

Increasing returns

One central factor contributing to agglomeration are the so-called increasing returns. In the Q-methodology we already noted that concerns about overhead costs were less a concern with respect to Tanzania as opposed to the Central African Republic.¹² During the field research we found substantive evidence that increasing returns to scale occur in Arusha, due to cost-sharing, reduced prices of inputs and knowledge spill-overs (learning effects). This makes NGOs operating in an agglomeration, such as the Arusha region, more competitive than NGOs that are operating in a non-agglomerated environment, just as in the business sector (Morosino, 2004 and Porter, 2000).

Firstly, 58% of the organizations engage in some kind of cost sharing arrangement. This can be sharing vehicles (34%), or sharing staff (43%) or shared fundraising (27%). Besides these costs sharing agreements there is evidence that by clustering, the costs of inputs are reduced. In Arusha, NGOs makes considerable use of external local firms, especially in the areas of computer services (72%), design and printing services (64%), community developments research (57%) and accountancy (51%).

It is interesting to note that complementarities exist between foreign direct investments and the internationally funded NGOs. The tourism companies that are internationally funded in the Arusha region often make use of the same internet-providers, taxi-companies and security firms. By making extensive use of these service providers, NGOs stimulate the market for these service providers, eventually leading to a decrease in price for amongst others internet services and auditing costs (cf. Keeble et al. 1999). International NGOs no longer need to provide satellite internet to local NGOs, or to fly in accountants themselves, as everything can be arranged locally. This drives down the operating costs. Thirdly, there are indications that knowledge spill-overs are occurring in the Arusha region. One way of collective learning are workshops or conferences on best practices. Almost all interviewees (>90%) know of workshops in which NGOs exchange best practices. More than 70% of the interviewees state that their organisation has become more innovative as a consequence of the presence of other NGOs. The majority of those could actually mention a particular example of this increased innovation. These learning effects have in the long term of positive effect on increasing returns to scale.

In the Arusha region, there are not yet signs of external diseconomies of scale. New entrants keep on making their way to the NGO market, indicating that if there are diseconomies of scale (e.g. high prices for office space), these are not sufficiently strong to simulate a process of dispersion.

Labour mobility

New geographical economists consider skill enhancement and labour mobility as important determinants of agglomeration processes. The Q-questionnaire of international donors already showed the importance

¹² Please recall that the unit of analysis in the Q-methodology is the national level, and that overhead concerns would be rated even less important if the question was asked in relation to the Arusha region.

of 'the capacity of local partners' and 'the potential to achieve results' in their decisions regarding involvement in Tanzania. The results of the field research support these findings.

In the Arusha case, labour skill effects also contribute to agglomeration, by means of capacitating local NGOs. More than 90% of the NGOs claim to benefit from personnel that previously worked for another NGO and now work for them. Interestingly, this is not a deliberate policy. Only 19% of the NGOs state to have jointly set up a training program to train personnel. Thus, in the case of labour, and also in other cases, the benefits of co-locating are spontaneous, and do not require any joint deliberate action.

As explained in the theoretical part, labour mobility holds particularly for the international staff. There is quite a predominance of international staff of NGOs in Arusha. During the reporting events 21% of the participants were international staff. They bring with them a network of donors, enhancing the endogenous growth process of the NGO sector in Arusha. This tallies well with the result of the Q-questionnaire which showed that there was a relatively strong informal network of international donors with Tanzania.

Path dependency

In the responses on the Q-questionnaire one interesting difference were the blank cards used. NGOs that filled in the cards themselves often wrote down as an important reason for absence from the Central African Republic that they had historically no relationship with that country, and on their presence in Tanzania that they historically had a relationship with that country. Past choices of NGOs still have repercussions today; path dependency.

When turning from the Q-questionnaire to the actual situation in Arusha region, path dependency is evident as the formation of NGOs appears to be a self reinforcing pattern: the average annual number of new organizations was 0 in the 1960s and 1970s, 0.29 in the 1980s, 2 in the 1990s and 2.9 in the first decade of the third millennium. More organizations stimulate new organization formation, just as in the business sector. NGOs attract more NGOs. As one NGO manager put it strikingly: 'When you want to start a business in Silicon Valley, California, what do you start? You don't go there to start your own shoe company, you start some software business. Now, what would you advise a young promising man in Arusha wanting to start his own business? To start a NGO! This is the best way to success'.

Foreign 'capacity building organizations' entrench this path dependency. Paradoxically, the capacity building organizations are most present in those regions in Tanzania where already most local capacity is present. When asked why this is the case, representatives from those organizations said that they are 'demand driven'. They focus on those regions where local organizations are present that can express their demands and where results can be achieved. Be it profit or not for profit, interviewed capacity building organizations recognized that by focusing on the Arusha region, they were actually further strengthening the organizational capacity of a region that is already quite organised. This was also related to access to international funding; capacity building is mostly financed by international donors, and as they are prevalent in Arusha, this attracts the capacity builders to Arusha. This contributes to a further 'professionalization' of NGOs in the Arusha region.

5. CONCLUSION

This paper dealt with the origins of the rapid rise of local and international NGOs in Arusha and argues that current theories on location decisions of NGOs need to be complemented with insights from new geographical economics. We have argued that traditional theories on locations of NGOs that focus on supply and demand cannot explain such a high degree of agglomeration. Neo-classical explanations of NGO locations would yield more dispersed geographic outcomes. The new geographical economics of non-profit organizations that we develop in this paper assigns a prominent role to increasing returns to aid, labour mobility and path dependency. In the case of NGOs in Arusha, this research has shown that all these factors contribute to the clustering of NGOs in Arusha. Factors that can explain the rise of Silicon Valley, can also explain the rise of "Serengeti Valley". These findings suggest an endogenous growth process of NGOs in Arusha, in which these self-reinforcing processes lead to an agglomeration of NGOs.

There is a flipside to this coin. Whilst there are 83 international development NGOs active in this one region of Tanzania, there are only 5 active in the e.g. entire Central African Republic. This is even more problematic when one considers that Tanzania is largely on track towards reaching the MDGs, and a country such as the Central African Republic is thoroughly off-track. The discovery of the new geographical economics for the for-profit sector in the early 1990s heralded positive forecasts of continuous endogenous growth, the discovery of new geographical economics for the non-profit sector, implies more sobering forecasts on the equitable distribution of international development assistance through NGOs. At a time that NGOs are preparing for the scaling up of aid, geographic distribution deserves to be at the centre of attention.

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ANNEX 1: ORGANIZATIONS IN THE GEOGRAPHIC SAMPLE

Acord	Mercy Corps
Bethlehem Mission	Misereor
Broederlijk delen	Norwegian Church Aid
Brot für die Welt	Norwegian Peoples Aid
CARE Australia	Oxfam America
Care Canada	Oxfam Australia
Care France	Oxfam Novib
Care Norway	OxfamSol
CARE USA	Plan Nederland
Caritas Switzerland	PSI
Christian Aid	ReddBarna
Christian's Children Fund	Rockefeller
Cordaid	Save the Children USA
DEVP Canada	SNV2004
Diakona	Swiss Aid
EDE	Swisscontact
Ford Foundation	Terre des Hommes Switzerland
Friedrich Ebert Stiftung	Trocaire
GOAL	VSO UK
Helvetas	Water Aid
Hivos	Welthungerhilfe
ICCO	World Vision Austria
IPPF	World Vision Canada
Kellog	World Vision Finland
Kindernothilfe	World Vision U.S.A.
McArthur	

Selection criteria for NGOs to be invited to submit their country-wise allocations.

- Have an annual budget of over 10 million Euro (in 2005)
- Be independent from the government and non-profit
- Spend more than 50% of its budget on development assistance (as opposed to humanitarian assistance).

ANNEX 2: REGIONAL NGO DENSITY IN TANZANIA (CITIZENS PER NGO)

