How equalization grants for local governments often (do not) work in Eastern Europe?

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Abstract: Spatial inequalities, resulting in extremely uneven access to public services, especially between capital cities' regions and rural countryside are among the most important challenges of several countries of Central and Eastern Europe. At the same time equalization is an official goal of regional policies in nearly all countries of the region. It is also promoted by the European Charter of Local Self-Government. In this article through the lenses of actual outcome of intergovernmental transfer systems, we check how effective are equalization policies in relation to local government revenues. Empirically, we focus on non-EU countries of Western Balkans and South Caucasus. Results for those countries are compared with three EU countries (including two in Central and Eastern Europe). Results suggest that in spite of officially formulated goal, in many countries of the region the transfer system is not an effective tool of equalization. In some cases, intergovernmental transfers contribute to enlarging rather than diminishing horizontal inequalities. Paper discusses possible factors beyond those inefficiencies of the system.