

ABSTRACT

This study examines the effects of fiscal transfers, political competition, and Gross Regional Domestic Product (GRDP) on Local Own-Source Revenue (PAD), as well as the moderating role of political competition in the relationship between fiscal transfers and PAD in regencies and municipalities across Java during 2014-2024. Fiscal transfers in this study are represented by the General Allocation Fund (DAU), Revenue Sharing Fund (DBH). The study employs an unbalanced panel dataset of 113 regencies and municipalities and applies the Two-Step System Generalized Method of Moments (System GMM) with alternative instruments.

The results indicate that the lagged value of PAD has a positive and significant effect on PAD. DAU has a negative and significant effect, while DBH and GRDP positively and significantly affect PAD. Political competition, proxied by the Herfindahl-Hirschman Index (HHI), has a negative and significant effect on PAD. Furthermore, political competition significantly moderates the relationship between fiscal transfers and PAD. The interaction between DAU and HHI is positive and significant, whereas the interaction between DBH and HHI is negative and significant effect on PAD.

Keywords: *Local Own-Source Revenue, General Allocation Fund, Revenue Sharing Fund, Political Competition, System GMM.*

