

THE EFFECT OF REVENUE SHARING FUNDS, CAPITAL EXPENDITURE, AND LOCAL OWN-SOURCE REVENUE ON ECONOMIC GROWTH IN THE BAKORWIL 1 MADIUN REGION

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Abstract:

This study aims to analyze the effect of Revenue Sharing Funds, Capital Expenditures, and Local Own-Source Revenues on Economic Growth. This study uses a quantitative approach utilizing panel data sourced from the Ministry of Finance and the Central Statistics Agency (BPS). The analysis was conducted to assess the extent to which local fiscal variables contribute to economic growth dynamics in the Bakorwil 1 Madiun region. The results show that revenue-sharing funds have a significant positive effect on economic growth, indicating that an increase in the allocation of revenue-sharing funds can boost regional economic activity. Meanwhile, capital expenditure has a significant negative effect on economic growth, suggesting that the effectiveness of capital expenditure is not yet optimal. Finally, Local Own-Source Revenue has been proven to have a significant positive effect, indicating that regional fiscal capacity through the utilization of local own-source revenue can strengthen economic growth. These findings emphasize the importance of effective regional fiscal management to support sustainable regional economic development.

Keywords: Economic Growth, Revenue Sharing Funds, Capital Expenditures, Local Own-Source Revenue

INTRODUCTION

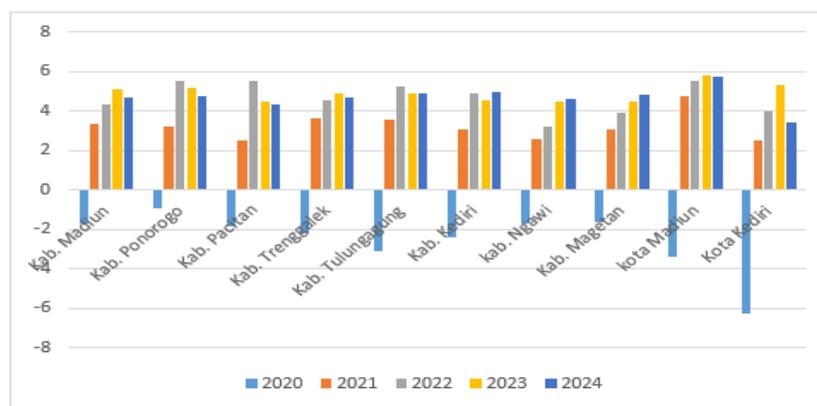
In recent decades, many developing countries, including Indonesia, have attempted to strengthen regional economic growth as part of national development equity. Economic growth reflects the level of success of a region in implementing national development, while also becoming an important issue in the long-term economy that focuses on gradual improvement and progress over a certain period of time (Saraswati, 2017). In order to achieve the national goals formulated in the Preamble to the 1945 Constitution, national development plays a role as a comprehensive process of developing the state administration system. The extent of development can indicate the level of progress and development a country has achieved (Gunawan & Suebah, 2022).

Regional autonomy plays a major role in driving economic growth because it gives regional authorities the power to regulate their own fiscal planning and formulate policies that can support regional development (Mokoginta et al., 2023). Strengthening regional financial and budget management strategies is fundamental for local governments in implementing regional autonomy (Hartadi, 2022). The implementation of regional autonomy is closely related to the concept of fiscal decentralization. Local governments are expected to be able to optimize their potential to carry out governmental duties and functions in order to realize priority regional development programs (Priambodo & Hidayat, 2024). In Law Number 32 of 2004, which discusses fiscal decentralization, Local Own-Source Revenue, Revenue Sharing Funds, and others are among the main sources of regional financial revenue (Indriyani & Wahyudi, 2021).



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Bakorwil 1 Madiun is located and headquartered in the city of Madiun, led by a Head of Bakorwil. This institution serves as the main coordinator for regional development and government activities in the area under its responsibility. Structurally, Bakorwil Madiun is under the direct supervision of the governor and directed by the Regional Secretary of East Java Province (Indartini & Wibisono, 2021). Despite having strong regional potential and a sufficient area, the implementation of regional autonomy in the Bakorwil 1 Madiun region has not been maximized. It is due to several inhibiting factors, so that effective autonomy has not been achieved (Muttaqin & Akbar, 2023).



Source: Central Statistics Agency
Figure 1. Economic Growth Chart

Figure 1 shows how districts and cities in the Bakorwil 1 Madiun region experienced varying levels of economic growth from 2020 to 2024. The city of Madiun ranked highest in terms of economic growth with an average growth rate of 3.67%, followed by Ponorogo District at 3.54%, Madiun District at 3.15%, Trenggalek Regency at 3.12%, Tulungagung Regency at 3.08%, Kediri Regency at 3%, Pacitan Regency at 2.99%, Magetan Regency at 2.91%, Ngawi Regency at 2.63%, and the lowest being Kediri City at 1.78%. In 2020, all regencies and cities in the Madiun Regional Coordination Agency 1 experienced economic contraction triggered by the COVID-19 pandemic. This condition arose due to limited community mobility and the weakening of various productive sectors that play a role in driving economic growth and shifting the focus and priorities to the health sector.

The issue of Revenue Sharing Funds (DBH) arises because their distribution often does not reflect the fiscal potential of the region, thereby creating disparities in revenue between regions. Differences in the ability of regions to collect taxes and manage natural resources also reinforce this imbalance (Aisyah, 2024). If local governments want to obtain a larger share of revenue-sharing funds, they need to maximize the utilization of available tax potential and natural resources (Shoba & Fidiana, 2022). For five years, Kediri City has ranked first in terms of revenue sharing funds, amounting to 293.18 million in 2023, most of which came from excise and tobacco revenue sharing funds. Furthermore, Kediri City's revenue-sharing funds for 2023 will be allocated to assist micro, small, and medium enterprises in order to boost economic growth (Sulthon, 2023). Meanwhile, Pacitan Regency received the lowest revenue sharing funds over the past five years, amounting to 75.62 million in 2024. However, these funds were still allocated to a number of activities in several



regional organizations, such as the social welfare, health, and law enforcement sectors (Trinoto, 2024).

In terms of capital expenditure, the highest budget over the past five years was obtained by Kediri Regency in 2020, amounting to 685.65 million, while the lowest was obtained by Kediri City in 2021, amounting to 81.52 million. Capital expenditure is often considered an important fiscal tool that plays a role in boosting the productivity of the real sector and strengthening the economic capacity of the region in a sustainable manner (Alfasyah et al., 2024). Field evidence shows that economic performance between regions is not always balanced, even though the proportion of capital expenditure is relatively equal. This condition indicates variations in the quality of planning, implementation, and evaluation of capital expenditure projects, as well as differences in institutional capacity in each region. Many local governments still experience technical and administrative obstacles that prevent the optimal and effective realization of the budget (Haryati et al., 2025).

Meanwhile, in terms of Local Own Source Revenue, an increase in Local Own Source Revenue plays an important role in realizing effective, comprehensive, and accountable regional autonomy (Syafelina & Arza, 2025). According to Government Regulation No. 71 of 2010 concerning Government Accounting Standards, Local Own-Source Revenue is derived from four main sources, namely local taxes, local levies, revenue from the management of separated local assets, and various other legitimate sources of revenue (Nurdiwaty et al., 2017). For five years, the highest and lowest local revenues were recorded by Kediri Regency in 2024 at 650.58 million and Pacitan Regency in 2022 at 165.6 million. Efforts to increase local revenues should be accompanied by improvements in the quality of public services provided by local governments (Ramadhani et al., 2024). On the other hand, excessive levies have the potential to burden the community, weaken regional motivation, and pose a threat to macroeconomic stability. In addition, the ineffectiveness of a number of regulations that have been implemented may indicate that the addition of new levies does not always reflect the local government's commitment to improving service quality. Therefore, appropriate regional regulations are needed so that each type of levy can be applied in an orderly and proportional manner (Yasin, 2020).

A number of previous studies have examined several factors that influence economic growth. As the study (Devi et al., 2024) and research (Ratih & Soelistyo, 2024) show that Revenue Sharing has a significant positive effect on Economic Growth, then in the study (Wibisono et al., 2024), Capital expenditure and local revenue have a significant effect on economic growth. Meanwhile, in the study (Hasanah, 2021) Capital expenditure does not affect economic growth, while local revenue has an effect on economic growth. Regional economic growth cannot be separated from the ability of local governments to manage revenue sources and allocate spending effectively. Strong fiscal performance, particularly through the optimization of Revenue Sharing Funds, capital expenditure, and Local Own-Source Revenue, plays an important role in expanding development capacity, improving public services, and encouraging community economic activity. However, previous studies have shown inconsistent results regarding how these three fiscal instruments affect economic growth at the regional level, requiring a more focused and comprehensive analysis. This situation has prompted researchers to reexamine this relationship, focusing on the characteristics of regions within specific regional government structures. Based on these considerations, this study was conducted by examining "The Effect of Revenue Sharing Funds, Capital Expenditures, and Local Own-Source Revenues on Economic Growth in Bakorwil 1 Madiun Region."

Economic Growth. Economic growth is seen as one of the key measures in evaluating the dynamics of a country's development, and is always a top priority, especially for the government



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(Kusumawati & Wiksuana, 2018). According to Todaro & Smith (2006), economic growth describes a country's ability to provide a wider range of products and services to its population in the long term. At the national level, the indicator used is GDP, while at the regional level, it is GRDP. Both measures are important references for the government in achieving its economic development goals.

According to Hasyim (2017) Economic growth can be understood as the dynamics of continuous change in the structure and performance of a country's economy, leading to improved economic conditions over a certain period of time. The three main elements underlying economic growth include continuous improvement in the capacity to supply goods, technological developments that are a major determinant of the rate of growth in meeting the needs of society, and comprehensive, efficient, and effective use of technology.

Endogenous Growth Theory. The basis for this research uses the endogenous growth theory developed by Lucas Jr (1988), which explains that economic growth stems from internal factors, including knowledge, innovation, and human capital. Lucas emphasizes the importance of accumulating human capital through education and continuous learning. If an economy is able to create an environment conducive to the development of knowledge, then that economy will not be trapped in slow growth.

Then, Barro (1990) incorporated the idea of fiscal decentralization into the framework of endogenous economic growth theory. The model is based on the assumption of constant returns and divides investment into two types: private and public investment. In fiscal terms, this model assumes that government revenue comes from taxes based on the principle of a balanced budget, meaning that an equivalent adjustment in taxes must offset any increase or decrease in government allocation. Government allocation is defined as the main tool for promoting economic growth, in accordance with the basic principles of endogenous growth theory.

Fiscal transfers from the central government to local governments in the form of Revenue Sharing Funds are expected to increase capital accumulation, which will be used for regional investment. In endogenous growth theory, capital accumulation is one of the indicators for increasing economic growth (Islami & Nababan, 2020). Some of the obstacles that cause suboptimal economic growth in developing countries are ineffective infrastructure and governance systems. It is reflected in how the government utilizes local revenue to promote the welfare and prosperity of the people, which will have an impact on economic growth in accordance with the principles of endogenous growth theory (Kurniawati & Muzdalifah, 2022).

Revenue Sharing Fund. Revenue Sharing Fund proposed by (JDIH Kemenkeu, 2022) is one of the components of Regional Transfers, whose distribution allocation is based on the percentage of certain types of revenue in the State Budget and takes into account relevant performance indicators. These funds are intended for autonomous producing regions to reduce fiscal disparities between the central government and the regions, while also being provided to non-producing regions to mitigate adverse externalities and obtain other benefits, namely, encouraging equitable development in the regional sector.

Revenue Sharing Funds are an important component of regional revenue and serve as the main source of funding for regional governments to support the development process and meet regional expenditure needs beyond Regional Original Revenue, General Allocation Funds, and Special Allocation Funds (Cahyaning, 2018). Based on the source, Revenue Sharing Funds are divided into Tax Revenue Sharing Funds and Natural Resource Revenue Sharing Funds (Mokorowu et al., 2020). Because the mechanism for distributing Revenue Sharing Funds is based on a specific



proportion, regions with higher tax base capacity tend to receive larger allocations of Revenue Sharing Funds (Mundiroh, 2019).

Capital Expenditure. Capital expenditure is a category of expenditure in the budget intended for the acquisition or improvement of fixed assets and other assets that generate benefits over more than one accounting period (Ririn et al., 2014). Capital expenditure can be understood as a form of investment made by local governments to support operations and ensure the continuous availability of public services (Zuhroh, 2018). In the early stages of economic development, large government expenditure is needed for government investment, which is prioritized for infrastructure development. The availability of infrastructure will support community activities, thereby improving regional economic performance (Waryanto, 2017). Furthermore, funds sourced from capital expenditure can be used effectively to improve the quality of education facilities and infrastructure, health services, and security systems in the region (Hutapea, 2023).

Capital expenditure serves as an instrument for realizing the government's strategic objectives and providing services to the community, so its management needs to be carried out optimally from the planning stage to the monitoring process (Heykal et al., 2024). Expenditure management covers all stages, from planning and implementation to evaluation of the programs and activities carried out. The implementation of expenditure budget management can run well if it encounters few obstacles or barriers (Aminah et al., 2025).

Local Own-Source Revenue. Local Own-Source Revenue, according to (JDIH Kemenkeu, 2025), is a revenue collected based on local regulations in accordance with the provisions of the law, which is used to raise funds to finance various local government activities. Local Own-Source Revenue includes revenue derived from local taxes, local levies, proceeds from the management of separated local assets, and other legitimate sources of revenue (Nashiri & Amanah, 2018).

Increases in local revenue are viewed as assets when accumulated, capable of generating various positive externalities and accelerating economic growth (Ladjin et al., 2023). To realize and promote regional finances, local governments need to maximize various sources of revenue, especially local revenue. It is to meet the funding needs for governing and developing their regions (Nopyandri, 2015). However, excessive local revenue collection can also place an additional burden on the community, become an obstacle for the region, and potentially have a negative impact on the macroeconomy (Rori, 2016).

METHODS

This study applies a quantitative approach using panel data. The panel data analysis method combines time series data and cross-sectional data to produce a comprehensive picture (Haryati et al., 2025). Panel data is used to determine economic growth over five periods from 2020 to 2024. The sampling technique chosen is saturated sampling, where the entire Bakorwil 1 Madiun region is used in this study, consisting of 10 regencies and cities, namely Madiun Regency, Ponorogo Regency, Pacitan Regency, Trenggalek Regency, Tulungagung Regency, Kediri Regency, Ngawi Regency, Magetan Regency, Madiun City, and Kediri City.

The data on three independent variables and one dependent variable are secondary. All data were obtained from official and valid sources, namely, the independent variables were obtained from the Ministry of Finance, and the dependent variables were obtained from the Central Statistics Agency of East Java Province. The analysis method used is panel data regression, supported by Stata 17 software, which allows for more accurate and efficient data processing. Panel data regression



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testing begins with model selection testing, classical assumption testing, and finally hypothesis testing. Furthermore, the econometric model applied in this study is formulated as follows:

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \epsilon_{it}$$

Information:

- Y= Economic Growth (%)
- X1= Revenue Sharing Fund (M)
- X2= Capital Expenditure (M)
- X3= Local Own-Source Revenue (M)
- I= Bakorwil 1 Madiun Region (10 City/Regency)
- t= Year of observation (2020–2024)
- α = Constant
- $\beta_1, \beta_2, \beta_3$ = Independent variable coefficient
- ϵ = Error term

RESULT AND DISCUSSION

Model Selection Test. To determine the effect of independent variables on dependent variables, a model selection test is required first. The model selection test determines the most appropriate model and selects between FEM, CEM, and REM in accordance with the hypothesis. The Chow test is the first test performed, as shown in Table 1.

Table 1. Chow Test

F-Statistic	3.10
Prob > F	0.0071

Source: Data analyzed by researchers in 2025

Based on the Chow Test results in Table 1, it can be explained that the probability value is 0.0071, which is less than 0.05. It indicates that the most appropriate Chow Test model to use is the Fixed Effect Model (FEM). Thus, the Hausman Test is needed to determine which model to select between the Fixed Effect Model (FEM) and the Random Effect Model (REM).

Table 2. Hausman Test

Prob > chi2	0.0371
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Source: Data analyzed by researchers in 2025

Table 2 shows the results of the Hausman test, which indicate that the probability value is 0.0371, which is less than 0.05, stating that the selected model is the Fixed Effect Model (FEM). From the results of both the Chow test and the Hausman test, it can be concluded that the Fixed Effect Model (FEM) is the most appropriate model to use.

Classical Assumption Test. As part of multiple linear regression analysis, classical assumption tests serve as a condition for whether or not the data passes (Damanik et al., 2023). The classical assumption tests that must be performed and fulfilled in STATA 17 software include



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normality tests, multicollinearity tests, heteroscedasticity tests, and autocorrelation tests. The normality test, as the first test, is performed as shown in Table 3.

Table 3. Normality Test

Variable	obs	Prob>z
Resid	50	0.06136

Source: Data analyzed by researchers in 2025

From Table 3, it can be seen that the probability value obtained is 0.06. When the probability value is compared with the standard significance level of 0.05, the probability value of 0.06 is greater than 0.05. Thus, from the normality test results, the regression model residuals are normally distributed. Next, a normality test is carried out as part of the classical assumption test.

Table 4. Multicollinearity Test

	X1	X2	X3
X1	1.0000	0.0492	0.1064
X2	0.0492	1.0000	0.4432
X3	0.1064	0.4432	1.0000

Source: Data analyzed by researchers in 2025

Table 4 shows the results of the multicollinearity test. X1 is Revenue Sharing Funds, X2 is Capital Expenditure, and X3 is Local Own-Source Revenue. These three variables do not have values greater than 0.8, so it can be concluded that they are free from multicollinearity or pass the multicollinearity test. The next step is to conduct a heteroscedasticity test as follows.

Table 5. Heteroscedasticity Test

Probability	0.0858
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Source: Data analyzed by researchers in 2025

Table 5 shows that the results of the Heteroscedasticity Test have a probability value of 0.0858, which exceeds the significance level of 0.05. Therefore, it can be concluded that there is no evidence of heteroscedasticity or that the Heteroscedasticity Test has been passed.

Table 6. Autocorrelation Test

P-value	0.0005
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Source: Data analyzed by researchers in 2025

In Table 6, the autocorrelation test results show a P-value of 0.0005, which is less than the significance level of 0.05. Therefore, the autocorrelation test can be declared as failing the autocorrelation test. To overcome the autocorrelation problem, the Fixed Effect Model uses the Cluster Robust Standard Error method. According to Petersen (2009), after detecting autocorrelation, model estimation is continued using Clustered Robust Standard Error, which in the Stata command is `vce(cluster id)`. The selection of this method is a recommended practice for obtaining valid inferences in addressing autocorrelation issues. This method is similar to the one used (Andriana, 2020). The results of the autocorrelation test on the Fixed Effect Model indicate the presence of autocorrelation. Therefore, Clustered Robust Standard Error is applied to address this



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issue. The following are the results of panel fixed effects regression using the Clustered Robust Standard Error method.

Table 7. Panel Data Regression

Variable	Coefficient	Robust Standard Error	t statistic	Probability
Y	-7.207903	3.449656	-2.09	0.066
X1	0.0391394	0.0079583	4.92	0.001
X2	-0.0093882	0.0037865	-2.48	0.035
X3	0.0237014	0.0069177	3.43	0.008

Source: Data analyzed by researchers in 2025

After applying the Clustered Robust Standard Error method, the difference before and after applying the method lies in the probability value, while the coefficient value remains the same. Then, the panel data regression equation is explained as follows:

$$Y = -7,207903 - 0,0391394 (X1) - 0,0093882 (X2) - 0,0237014 (X3)$$

The constant value obtained is -7.207, which means that when all independent variables are zero or unchanged, the value of the dependent variable will be equal to -7.207. The regression coefficient for the Revenue Sharing Fund variable shows a positive value of 0.039, which means that an increase in the Revenue Sharing Fund variable will cause the Economic Growth variable to increase by 0.039, and vice versa. The regression coefficient for the Capital Expenditure variable is negative at -0.009, which means that a decrease in the Capital Expenditure variable will be followed by a decrease in the Economic Growth variable by -0.009, and vice versa. The regression coefficient for the Local Own-Source Revenue variable is positive at 0.023, which means that an increase in the Local Own-Source Revenue variable will be accompanied by an increase in the Economic Growth variable of 0.023, and vice versa.

Hypothesis. To determine the extent of the influence of an independent variable on a dependent variable, a T-test must be performed.

Table 8. T-test (Partial)

Variable	Coefficient	Robust Standard Error	t statistic	Probability
Y	-7.207903	3.449656	-2.09	0.066
X1	0.0391394	0.0079583	4.92	0.001
X2	-0.0093882	0.0037865	-2.48	0.035
X3	0.0237014	0.0069177	3.43	0.008

Source: Data analyzed by researchers in 2025

The T-test results from Table 8 show that all independent variables have a significant effect on Economic Growth (Y), although the direction of the effect varies. Revenue Sharing Funds (X1) and Local Own-Source Revenue (X3) both have positive coefficients of 0.0391394 and 0.0237014, respectively, and probability values that are both below 0.05, namely 0.001 and 0.008, indicating that both variables have a significant positive effect on Economic Growth. Conversely, Capital Expenditure (X2) shows a negative coefficient of -0.0093882 with a probability value of 0.035, which, although less than 0.05, indicates that Capital Expenditure has a significant negative effect on Economic Growth.



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Table 9. F-Test (Simultan)

F-statistic	18.51
Prob > F	0.0003

Source: Data analyzed by researchers in 2025

The F-test results show that the F-count value of 18.51 is greater than the F-table value of 2.809. Then it is known that the probability value is 0.000, which is less than 0.05, so it can be explained that variables X1, X2, and X3 have a significant simultaneous effect on variable Y.

Table 10. R-Squared

R-Squared	0.5048
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Source: Data analyzed by researchers in 2025

An R-squared value of 0.5048 indicates that 50.48% of the variation in the dependent variable (Y) can be explained simultaneously by the three independent variables (X1, X2, and X3) included in the regression model. Other factors outside the model explain the remaining 49.52% of the variation. From an econometric and social science perspective, an R-squared value in the range of 0.50 is considered moderate to strong, given that economic phenomena are influenced by many factors that are complex, dynamic, and often not directly observable (Gujarati & Porter, 2009; Peterson, 2023).

The Relationship between Revenue Sharing Funds and Economic Growth. The results of the study show that revenue sharing has a significant positive effect on economic growth in the Bakorwil 1 Madiun region, where the effect is unidirectional. It is in line with endogenous growth theory, which emphasizes the important role of capital accumulation in the form of revenue sharing in driving economic growth. It means that the greater the allocation of revenue-sharing funds received, the greater the economic growth of the region. It occurs because revenue-sharing funds can be used to strengthen the productive sector, investment, and infrastructure development, which directly support increased economic activity and the welfare of the local community.

These results are consistent with research (Nisa, 2017) that Tax Revenue Sharing Funds have a positive effect on Economic Growth in Regencies/Cities in East Java Province. Then in the study (Trianto & Panggabean, 2023) also emphasizes that Revenue Sharing Funds have a positive relationship with economic growth. The allocation of Revenue Sharing Funds by the central government to the regions is able to support increased economic growth. Regions that receive a more significant share of Revenue Sharing Funds often show consistent and sustainable economic growth.

The Relationship Between Capital Expenditure and Economic Growth. The results of the study indicate that capital expenditure has a negative effect on economic growth in the Bakorwil 1 Madiun region. In theory, this finding is contrary to endogenous growth theory, where the effect is opposite. Although capital expenditure allocation has increased, it has not had an impact on economic growth trends. It may be due to several factors, one of which is the time frame of the study, namely 2020-2024, which coincides with the COVID-19 pandemic and post-pandemic recovery period, where budget priorities shifted to the health sector and social recovery, so that capital expenditure projects may have been delayed, diverted, or focused on infrastructure with long-term



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effects, thus limiting improvements to public service quality, whose impacts are not immediately visible in macroeconomic growth indicators in the short term.

This study is consistent with the findings (Qomariyahti & Hermanto, 2017), which show that Capital Expenditure has a negative impact on Economic Growth, where the realization of fund transfers to the regions has not reached its maximum level due to planning processes that are still not effective enough. The same is true for research (Rahmawati et al., 2024). Capital expenditure has a negative effect on economic growth. This condition arises from the fact that planned and implemented capital expenditure does not immediately have a direct impact on economic growth. The process takes time, starting from the budget planning stage, implementation of activities, and their utilization by the community to support increased economic activity.

The Relationship between Local Revenue and Economic Growth. The results of the study show that Local Revenue has a significant positive effect on economic growth in the Bakorwil 1 Madiun region. This finding indicates that improving the performance of Local Own-Source Revenue in the Bakorwil 1 Madiun region is effective as a major driver of regional economic growth. This study is in line with endogenous growth theory, whereby the higher the local own-source revenue, the stronger the region's capacity to fund productive expenditures and investments, without relying entirely on funds allocated by the central government. During the 2020-2024 period, the increase in Local Own-Source Revenue enables local governments to focus on programs for developing economic support infrastructure, providing investment incentives, and delivering quality public services that directly stimulate business activities, private investment, and create job opportunities, ultimately accelerating the region's macroeconomic growth rate.

This finding is reinforced by research (Friera et al., 2024), which shows that Local Revenue affects Economic Growth in Regencies and Cities in East Java Province. These findings indicate that local budget management by the government has been effective, thereby driving economic growth. Similarly, the study (Susanti & Aji, 2021) shows that the increase in Local Own-Source Revenue in the Regencies and Cities of East Java Province has triggered economic growth in the region.

CONCLUSION

Based on the findings, it can be concluded that each variable has a different contribution to economic growth in the Bakorwil 1 Madiun region. First, Revenue Sharing Funds have been proven to have a positive and significant impact, indicating that an increase in the amount of Revenue Sharing Funds can strengthen regional fiscal capacity in driving economic activity through financing productive sectors, infrastructure development, and better public services. Second, Capital Expenditure has a negative effect on economic growth during the 2020-2024 period, indicating that the realization of capital expenditure during the pandemic tends to focus on long-term needs or sectors whose impact is not immediately visible in macroeconomic indicators. Third, Local Own-Source Revenue shows a positive and significant effect, so that an increase in Local Own-Source Revenue is an important factor in strengthening regional fiscal independence and enabling local governments to finance development programs that effectively drive economic activity, investment, and job creation. Overall, these findings confirm that strengthening the performance of Revenue Sharing Funds and Local Own-Source Revenue plays a vital role in accelerating regional economic growth, while the effectiveness of capital expenditure needs to be continuously improved to provide a more optimal impact on economic growth in the Bakorwil 1 Madiun region.

Recommendations. The government needs to strategically direct capital expenditure allocations towards productive projects that have a tangible impact and are in line with Endogenous



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Growth Theory. Capital expenditure should be prioritized for the accumulation of public capital that can increase the internal capacity of the region, namely by focusing on investment in digital infrastructure, the quality of human capital (education and health), and local research or innovation facilities, factors that endogenously drive increased productivity in the private sector and regional competitiveness. In addition, accelerating budget absorption and improving project implementation quality must be prioritized so that public capital investment can actually trigger economic growth, rather than being hampered by inefficiency. These efforts must be accompanied by improvements in the capacity of the apparatus and professional regional financial management so that all fiscal instruments can support each other and contribute more optimally to economic growth in the Bakorwil 1 Madiun region.

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