THE INFLUENCE OF REGIONAL REVENUE COMPONENTS ON REGIONAL CAPITAL EXPENDITURE IN INDONESIA (2019–2024)

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Abstract: The effective implementation of fiscal decentralization in Indonesia, as mandated by Law No. 23/2014 and Law No. 1/2022, requires local governments to manage their budgets in a more targeted manner, particularly by prioritizing capital expenditure, which represents long-term investment, is vital for stimulating economic growth and elevating the standard of public service provision. This research investigates the degree to which regionally sourced income, the general allocation fund, the special allocation fund, and the revenue sharing fund shape the capital spending allocation decisions of local governments across Indonesia. Using a quantitative methodology, the study applies panel data regression to analyze this relationship. This research is based on regional budget execution records of 34 provinces in Indonesia spanning the 2019–2024 period. The test results indicate that, collectively, PAD, DAU, DAK, and DBH exert a significant effect on capital expenditure. However, when examined individually, PAD, DAU, and DAK are each associated with significant growth in capital spending. This finding underscores the role of fiscal autonomy and purpose-specific transfers in promoting investment in fixed assets. Conversely, DBH exerts a significant negative impact on capital expenditure, suggesting that DBH contributions are more likely to be absorbed by regional operational spending, thereby reducing the capacity for physical investment. The policy implications emphasize the need for adjustments in the allocation mechanisms of DBH and for strengthening local governments' capacity to enhance PAD. This strategy is vital for optimizing fiscal resources to support sustainable infrastructure development.

Keywords: Capital Expenditure, Regional Revenue, General Allocation Fund, Special Allocation Fund, Revenue Sharing Fund

INTRODUCTION

Public sector reforms and the demands of democratization have strengthened transparency, governance integrity in managing of state and regional finances in Indonesia. Through the implementation of fiscal decentralization Indonesia, as mandated by Law No. 33 of 2004, regional governments have been granted broad authority to independently manage and regulate their finances, including the allocation of capital expenditure, which plays a vital role in long-term development and improving the quality of public services. However, empirical evidence reveals that the proportion of capital expenditure in many provinces remains relatively low and is often overshadowed by routine expenditures such as personnel costs and operational expenses. This situation is exacerbated by various challenges, including budgetary uncertainty, misaligned priority-setting, limited human resource capacity, weak oversight mechanisms, and persistent corruption risks, all of which hinder the effectiveness of regional development efforts.
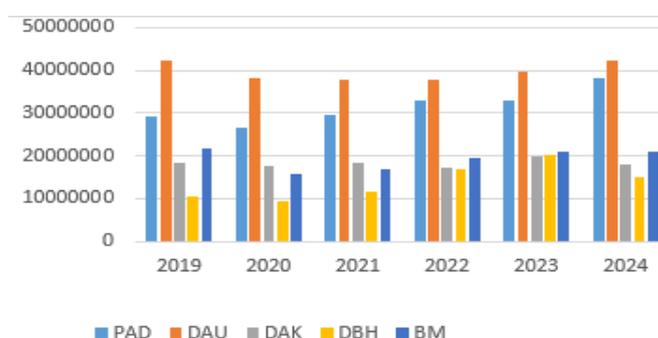
Source: Directorate General of Fiscal Balance, Ministry of Finance of the Republic of Indonesia, 2019–2024. (processed data)

Figure 1. Comparison of Capital Expenditure, Personnel Expenditure, Goods and Services Expenditure, and Regional Expenditure

Data from the Directorate General of Fiscal Balance (DJPK, 2024) indicate that between 2019 and 2024, capital expenditure experienced a significant decline during the 2020 pandemic period before gradually recovering in subsequent years. This trend is clearly reflected in the comparison between capital expenditure and routine expenditure, which shows a persistent dominance of personnel and operational spending across most provinces. This condition suggests that a long-term development orientation has not yet been fully prioritized within the regional budget (APBD) structure. The capacity of regional governments to finance the acquisition of goods and services is heavily dependent on the volume of revenue received from local own-source revenue, equalization grants, special purpose grants, and revenue sharing allocations. PAD reflects the degree of regional fiscal autonomy, while DAU plays a role in mitigating fiscal disparities across regions. DAK is specifically focused on supporting the implementation of national priority programs, such as those in the health and education sectors. Meanwhile, DBH is allocated based on a region's contribution to national revenue, whether derived from taxes or the utilization of natural resources.

Source: Directorate General of Fiscal Balance, Ministry of Finance of the Republic of Indonesia, 2019–2024 (processed data)

Figure 2. Trends in Locally-Generated Revenue, General Allocation Fund, Special Allocation Fund, Revenue Sharing Fund, and Capital Expenditure in Indonesia, 2019–2024

Furthermore, the fiscal conditions across Indonesia's provinces exhibit considerable diversity. Each province demonstrates distinct capacities in generating local revenue (PAD), varying levels of dependency on the General Allocation Fund (DAU), different priorities in utilizing the special allocations fund, and varying levels of revenue sharing fund allocation, particularly in resource-rich provinces. This variation in fiscal capacity results in non-uniform patterns of capital expenditure across provinces, making a cross-provincial analysis of all 34 provinces crucial for obtaining a comprehensive national fiscal overview. The period 2019–2024 was selected for analysis as it captures significant fiscal policy dynamics, including budget refocusing during the COVID-19 pandemic, the transition to new reporting systems such as SIPD and KRISNA, and the subsequent fiscal recovery phase from 2022 to 2024.

Theoretically, the relationship between various regional revenue sources and capital expenditure can be understood through Musgrave's (1959) Theory of Public Expenditure, which highlights the government's responsibility in carrying out the functions of allocation, distribution, and stabilization. Local government spending on access to public utilities and government services reflects the allocation function within fiscal decentralization, particularly through capital expenditure oriented toward long-term development. Locally-Generated Revenue (PAD) indicates a region's level of financial self-reliance; thus, an increase in PAD provides local governments with greater budgetary flexibility to allocate in regional fiscal management, the general allocation fund contributes to capital expenditure financing serves distributional and stabilization functions aimed at reducing fiscal disparities across regions, theoretically enhancing a region's overall spending capacity—including capital expenditure—though its use remains flexible. In contrast, the Special Allocation Fund (DAK) is specifically allocated to support national priority programs and is earmarked for designated purposes, creating a strong conceptual linkage with capital spending. Meanwhile, the Revenue Sharing Fund (DBH) seeks to establish fiscal equity between the central and regional governments. However, as a block grant with relatively limited proportional allocation, its impact on capital expenditure may vary considerably across regions. Therefore, conceptually, PAD, DAU, DAK, and DBH are each related to capital expenditure, though the direction and magnitude of their influence are shaped by regional fiscal characteristics and local financial management policies (Yulianti & Daud, 2022).

Previous research indicates varied findings regarding the relationship between PAD, DAU, DAK, DBH, and capital expenditure. Ghozali & Aji (2024) demonstrate a positive effect of Locally-Generated Revenue (PAD) on capital spending, a conclusion supported by Putri & Nursiam (2025) in their study of cities and regencies in Central Java. However, studies by Anggraeni & Sapari (2023) and Asmawiah & Sulistiyo (2022) suggest that PAD does not consistently exert a significant influence. Regarding the General Allocation Fund (DAU), research by Siregar (2020) and Prasetyo & Rusdi (2021) confirms a positive impact. In contrast, other studies, such as Hidayat (2024) and Cahyaning (2018), indicate that a portion of DAU tends to be absorbed by routine expenditures due to the flypaper effect, thereby weakening its contribution to capital investment. Meanwhile, a majority of findings conclude that the Special Allocation Fund (DAK) has a significant and positive influence on capital expenditure, as evidenced by multiple studies, including Murti & Trisnawati (2021), Soesilo & Asyik (2021), and Pramudya & Abdullah (2021). The most inconsistent results pertain to the Revenue Sharing Fund (DBH). Some research, such as that by Purnasari et al. (2022)

and Marni et al. (2022), identifies a positive relationship, whereas other studies, including Devi & Tjahjono (2023) and Lutpikah & Mahendra (2020), report negative or insignificant effects on capital spending.

The inconsistency in these findings highlights a significant research gap, particularly in the post-pandemic period when regions must simultaneously address economic recovery and the need to enhance public service quality. This persistent inconsistency reveals a literature gap in comprehensive, multi-source fiscal analysis at the national level. Previous studies have predominantly focused on specific regions or partial combinations of revenue sources. Our research addresses this by providing a unified analysis across all Indonesian provinces, examining the simultaneous influence of all four major revenue streams during a critical period of fiscal adaptation and recovery. Therefore, this study aims to provide recent empirical evidence on the effectiveness of regional fiscal capacity by examining the impact of PAD, DAU, DAK, and DBH on capital expenditure across all 34 provinces in Indonesia from 2019 to 2024.

METHODS

Using a quantitative method, this investigation relies on secondary data from the Directorate General of Fiscal Balance (DJPK). The dependent variable is capital expenditure, measured in billions of Indonesian rupiah. Meanwhile, PAD, DAU, DAK, and DBH serve as the independent variables. To address significant disparities in economic scale and population across Indonesia's 34 provinces, all fiscal variables were transformed into natural logarithm form. This transformation serves three purposes: (1) to normalize the distribution of variables and reduce the influence of extreme values or outliers, (2) to enable elasticity interpretation of regression coefficients, and (3) to mitigate potential heteroscedasticity issues common in fiscal data with wide-ranging values. All values are expressed in nominal terms, as the relatively short time span (2019-2024) and the use of fixed effects in panel data analysis help control for general price level changes over time.

The data analyzed are panel data, combining time-series (2019–2024) and cross-sectional (34 provinces in Indonesia) dimensions, resulting in 204 observations (34 provinces × 6 years). The specific operational definitions are as follows: Capital expenditure refers to regional budget allocations for acquiring, constructing, or improving physical assets with benefits extending beyond one fiscal year, as defined in Government Regulation No. 71/2010. PAD encompasses locally-sourced revenues including regional taxes, regional levies, results from separated regional wealth management, and other legitimate local revenues under Law No. 1/2022. DAU represents general purpose transfers from the central government aimed at reducing fiscal disparities. DAK constitutes special purpose transfers earmarked for specific priority sectors. DBH includes revenue sharing from central taxes and natural resources returned to regions of origin. Three common panel data models, namely the pooled Common Effect Model (CEM), Fixed Effects Model (FEM), and Random Effects Model (REM), were considered for the regression analysis using EViews 12. The selection between FEM and REM was guided by both theoretical considerations and statistical testing. Theoretically, FEM is appropriate when unobserved province-specific characteristics (such as geographic conditions, cultural factors, or long-term institutional quality) are correlated with the independent variables. Given the substantial heterogeneity among Indonesia's 34 provinces, FEM was initially considered suitable to control for these time-invariant factors. To determine the statistically optimal model, formal tests were conducted. First, the Chow test (F-test) was performed to choose between CEM and FEM. A significant result ($p < 0.05$) led to the rejection of CEM in favor of FEM. Subsequently, the Hausman test was employed to select between FEM and REM. The test result indicated a statistically significant difference between the two models ($p < 0.05$), leading to

the rejection of the null hypothesis that REM is consistent and efficient. Consequently, the Fixed Effects Model (FEM) was selected as the most appropriate estimator for this study.

Prior to model estimation with FEM, classical assumption tests were conducted. These included: (1) Multicollinearity test using correlation coefficients between independent variables; (2) Heteroscedasticity test using the Breusch-Pagan method. Other assumptions, such as autocorrelation and normality, were not prioritized in this panel data analysis following Basuki (2021), as the combination of cross-sectional and time-series dimensions often mitigates autocorrelation concerns, and normality is not a strict requirement for consistent parameter estimation in large samples.

The individual influence of each independent variable on capital expenditure was assessed using the t-test, while the joint effect of all independent variables was evaluated with the F-test. Furthermore, model fit was evaluated using the R-squared (R^2) statistic. The following econometric model was specified for this study:

$$BM_{it} = \alpha + \beta_1 PAD_{it} + \beta_2 DAU_{it} + \beta_3 DAK_{it} + \beta_4 DBH_{it} + \varepsilon_{it}.$$

Notes:

BM	= Capital Expenditure (in billions of IDR)
PAD	= Locally-Generated Revenue (in billions of IDR)
DAU	= General Allocation Fund (in billions of IDR)
DAK	= Special Allocation Fund (in billions of IDR)
i	= 34 provinces in Indonesia
t	= Observation year (2019–2024)
α	= Constant
$\beta_1, \beta_2, \beta_3, \beta_4$	= Regression coefficients of each independent variable
ε	= Error term

RESULT AND DISCUSSION

Results of Panel Data Regression Estimation

Table 1. Panel Data Regression Estimation Results

Variable	Coefficient	Std.Error	t-Statistic	Prob.
C	279171.6	31155.98	8.960448	0.0000
X1	0.685301	0.038805	17.65955	0.0000
X2	0.079169	0.025305	3.128606	0.0021
X3	0.131821	0.043764	3.012056	0.0030
X4	-0.103131	0.039842	-2.588500	0.0105
R-Squared	0.785059			
Adjusted R-Squared	0.737150			
F-statistic	16.38660			
Prob (F-statistic)	0.000000			

The Chow test results indicate that the two primary panel estimation approaches, FEM and REM, are statistically viable, as evidenced by a Prob Chi-Square value of 0.0000, which is less than the 0.05 significance threshold. The Hausman test was subsequently applied to identify the best-fitting model between the two. Based on its results, FEM is confirmed as the superior and most

suitable model for this study. Consequently, further testing with the Lagrange Multiplier test was deemed unnecessary. Given these findings, FEM was selected as the optimal model to estimate all variables examined in this research. The next step involves conducting classical assumption tests. In line with established panel data methodology (Basuki, 2021), this study applies tests for heteroskedasticity and multicollinearity, while other classical assumptions, such as autocorrelation and normality, are considered less critical in the context of panel data analysis.

The multicollinearity test results indicate that all correlation coefficients between independent variables are below the 0.80 threshold, confirming the absence of multicollinearity issues. Specifically, the correlations are as follows between X1 (PAD) and X2 (DAU) is 0.337802 X1 (PAD) and X3 (DAK) is 0.443428 X1 (PAD) and X4 (DBH) is 0.502505 X2 (DAU) and X3 (DAK) is 0.798239 X2 (DAU) and X4 (DBH) is 0.1444 and X3 (DAK) and X4 (DBH) is 0.229964. Subsequently, the heteroskedasticity test, conducted by regressing the absolute residuals (ABS Residual) against the independent variables, shows that all probability values exceed the 0.05 significance level. It indicates that the independent variables do not exhibit a statistical significance influence on the variance of the residuals, suggesting that the model does not exhibit symptoms of heteroskedasticity.

Panel Data Regression.

$$BM_{it} = 2791716 + 0{,}68530PAD_{it} + 0{,}07916DAUI_t + 0{,}13182DAK_{it} - 0{,}10313DBH_{it} + €_{it}$$

The estimated regression coefficient for the intercept shows that 2,791,716 represents the estimated capital expenditure under the condition that all explanatory variables equal zero, held at zero. The coefficient for PAD (X1) is 0.68530, suggesting that, ceteris paribus, a 1% increase in PAD is associated with a 0.68530% rise in capital expenditure. Similarly, a 1% increase in DAU (X2) corresponds to a 0.07916% increase in capital spending, a statistically significant relationship ($p = 0.002$). Furthermore, the coefficient for DAK (X3) is 0.13182, indicating that a 1% rise in DAK leads to a 0.13182% increase in capital expenditure, with high statistical significance ($p = 0.000$). In contrast, the coefficient for DBH (X4) is negative (-0.10313), meaning that a 1% increase in DBH is associated with a 0.10313% decrease in capital spending, despite this effect also being statistically significant ($p = 0.010$).

Based on the t-test results, the variable PAD (X1) demonstrates a probability value of 0.000, which is below the 0.05 significance threshold. The calculated t-value of 17.66 far exceeds the critical t-value of 1.978, confirming that PAD has a positive and statistically significant effect on capital expenditure. It indicates that an increase in PAD meaningfully enhances a region's capacity to finance capital projects. Similarly, DAU (X2) shows a probability of 0.002 (< 0.05) with a t-value of 3.13 (> 1.978), suggesting a significant positive influence. It implies that greater DAU allocations received by a province correspond to increased capital spending. DAK (X3) also exhibits a highly significant positive impact, with a probability of 0.000 (< 0.05) and a t-value of 3.01 (> 1.978). It reflects the targeted nature of DAK, where earmarked central government transfers effectively promote capital expenditure for specific regional development projects. In contrast, DBH (X4) has a probability value of 0.010 (< 0.05) and a negative t-value of -2.59, which falls below the critical threshold of -1.978. This finding indicates that DBH exerts a statistically significant negative effect on capital expenditure. This outcome can be attributed to the block grant nature of DBH, which does

not strictly mandate its use for capital financing and may instead be absorbed into routine regional expenditures.

The F-test results yield an F-statistic of 16.38660 with a corresponding p-value of 0.000. Comparing this F-statistic to the critical F-value of approximately 2.48 at the 5% significance level, the calculated value exceeds the threshold, and the p-value is below 0.05. Consequently, the null hypothesis (H_0) is rejected, indicating that the independent variables jointly exert a significant influence on capital expenditure. It demonstrates that capital spending is not determined by a single revenue source, but rather by the combined effect of locally-generated revenue and intergovernmental transfers. Furthermore, the coefficient of determination (R^2) of 0.737150 suggests that approximately 73% of the variation in capital expenditure can be explained by the included independent variables (X_1, X_2, X_3, X_4). The remaining 27% is attributable to factors outside the specified model.

Relationship between PAD and Capital Expenditure. Analysis reveals that locally generated income exerts a statistically significant positive impact on capital expenditure. It suggests that regions with higher PAD allocate proportionally greater funds to capital spending. Increased revenue derived from the local economy strengthens a region's fiscal capacity to finance development through the acquisition of fixed assets and public infrastructure. Consequently, PAD serves as a critical determinant in the policy formulation process for capital expenditure allocation.

These findings align with Musgrave's (1959) Theory of Public Expenditure, which posits that growth in government revenue should ideally be accompanied by increased spending in productive sectors—reflecting the allocation function, particularly through capital investment. In this context, PAD expands the fiscal space available to local governments, enabling more strategic budgeting aligned with regional development priorities. Empirically, the variation in PAD across provinces reveals that regions with relatively higher locally-generated revenue possess greater fiscal flexibility in implementing capital expenditure compared to areas with lower PAD, which tend to rely more heavily on central government transfers.

Consistent with prior research, the findings by Manurung et al. (2025) and Rahayu & Jaeni (2025) conclude that PAD exerts a positive and significant influence on capital expenditure. However, they diverge from the results of Handayani & Hendaris (2024) and Hadi & Kusuma (2023), which found no significant influence of PAD on capital spending. This discrepancy indicates that the effect of PAD on capital expenditure is not universal, but rather shaped by regional characteristics, expenditure structures, and local governments' fiscal management priorities and effectiveness. In line with Marco Mele et al. (2020), the correlation between public revenue and fiscal outlay is mediated by fiscal policy. Consequently, the effectiveness of increased PAD in driving capital expenditure depends fundamentally on how the revenue is managed and allocated.

Relationship between DAU and Capital Expenditure. Study results show that the general allocation fund demonstrates a positive and statistically significant impact on capital expenditure. This finding suggests that an increase in DAU receipts within a region is associated with a larger allocation and realization of capital spending by local governments. In other words, higher intergovernmental transfers through DAU strengthen a region's fiscal capacity to fund development through the procurement of fixed assets, infrastructure, and public facilities.

These results are consistent with distribution function in Musgrave's theory, which posits that rising government revenue stimulates spending in productive sectors as part of the allocation

function. From this theoretical perspective, DAU performs distributional and stabilization roles—reducing fiscal disparities across regions and ensuring the provision of essential public services. As a block grant, DAU provides local governments with the flexibility to allocate funds in accordance with development needs and priorities, including capital investment. Consequently, when regional governments receive larger DAU allocations, their expanded fiscal capacity enables increased capital expenditure to support sustainable local development. Empirically, variations in DAU disbursements across provinces reveal that regions with greater fiscal needs and relatively low locally-generated revenue (PAD) receive stronger fiscal support through DAU, thereby gaining enhanced fiscal space to implement capital projects.

The findings align with previous studies by Tiyas & Wuryani (2022), Ananta & Erawati (2024), and Fikri & Wahidahwati (2023), which also concluded that DAU positively contributes to the growth of capital expenditure. It reinforces the notion that DAU is not solely channeled toward operational expenditures but also plays a vital role in supporting regional development and asset enhancement. In line with Pietrovito et al. (2023), fiscal transfers and the deepening of fiscal decentralization enhance local public spending capacity, particularly in regions with relatively weaker fiscal autonomy. On the other hand, this study yields results that contrast with earlier research, such as Putri & Nursiam (2025), which found that DAU does not significantly drive capital expenditure. This discrepancy indicates that DAU's contribution to stimulating capital spending is highly contingent upon regional fiscal needs, expenditure structures, and local budgetary policies.

Relationship between DAK and Capital Expenditure. The data analysis reveals a strong, positive correlation, indicating that the Special Allocation Fund (DAK) significantly drives the increase in capital expenditure. This finding demonstrates that a rise in DAK allocations to regional governments is followed by higher realized capital spending. Consequently, increased DAK funding enhances the capacity of local governments to finance physical development focused on fixed asset formation, including infrastructure, educational facilities, and healthcare service provisions.

This outcome aligns with the Public Expenditure Theory, particularly its allocation function, which emphasizes the government's role in providing public goods and services through productive spending. Conceptually, DAK is designated to finance specific activities oriented toward national priority programs, especially in education, health, and infrastructure. Therefore, DAK utilization is concentrated on funding construction, procurement, rehabilitation, and maintenance of fixed assets, which are realized as capital expenditure. Unlike the block grant nature of DAU, DAK is earmarked, directing its use explicitly toward capital investment.

The findings are consistent with prior research, as this study aligns with the conclusions of Putri & Nursiam (2025) and Romadhon & Aji (2021), who also identified a positive effect of DAK on capital expenditure. It reinforces the view that DAK serves as an effective fiscal instrument for promoting regional development investment, particularly through the formation of long-term fixed assets. In line with Durongkaveroj (2022), government spending focused on productive expenditure plays a crucial role in supporting development, which in regional governance is realized through capital expenditure financed by DAK. However, these results differ from the study by Purnasari & Sitompul (2022), which found no significant relationship between DAK and capital spending. This inconsistency may stem from variations in sectoral priorities, planning effectiveness, and regional capacity to implement DAK-funded projects.

Relationship between DBH and Capital Expenditure. The study reveals that the Revenue Sharing Fund (DBH) exerts a statistically significant negative effect on capital expenditure. It indicates that an increase in DBH receipts within a region tends to correspond with a reduction in the allocation of capital spending. In other words, higher DBH revenues do not necessarily lead to greater long-term investment expenditure but are instead more likely to be diverted toward other budgetary needs.

According to Public Expenditure Theory, DBH is closely linked to the distribution function, aimed at fostering fiscal equity between central and regional governments through the sharing of tax and natural resource revenues. An increase in DBH should enhance local fiscal capacity and promote development spending, including capital expenditure. However, the findings of this study present a contrasting outcome, demonstrating a negative correlation between DBH and capital investment. This discrepancy can be attributed to the block-grant and highly flexible nature of DBH, which in practice is often utilized to finance operational and routine expenditures rather than long-term investment. Furthermore, in most provinces, DBH constitutes a relatively small proportion of total regional revenue, limiting its capacity to significantly drive capital expenditure growth.

These results align with the conclusions of Devi & Tjahjono (2023) and Lutpikah & Mahendra (2020), who similarly found no positive impact of DBH on capital spending. Higher DBH allocations do not necessarily translate into a stronger regional commitment to development investment. In contrast, the findings differ from Ananta & Erawati (2025) and Marni et al. (2022), who reported that DBH had no significant effect on capital expenditure. This variation implies that the utilization of DBH across regions is not consistently oriented toward investment, but is frequently shaped by pressing routine spending needs and the distinct fiscal characteristics of each locality (Heykal et al., 2024).

The Combined Effect of PAD, DAU, DAK, and DBH on Capital Expenditure. Collectively, PAD and the intergovernmental transfers comprising DAU, DAK, and DBH represent the overall fiscal capacity of local governments. According to Musgrave's Public Expenditure Theory, growth in government fiscal capacity is positively correlated with its ability to allocate spending toward productive sectors, including capital expenditure. The analysis confirms that locally-generated revenue combined with transfer funds simultaneously exerts a significant influence on capital spending, indicating that enhanced regional fiscal capacity leads to higher allocations for capital investment. This finding underscores that capital expenditure is not driven by a single revenue source but by the combined effect of all regional receipts.

Therefore, the simultaneous influence of all regional revenue sources on capital expenditure aligns with Public Expenditure Theory, which posits that government revenue serves as the primary determinant of a region's capacity to finance development. These results are consistent with the findings of Eliana et al. (2023) and Wulandari et al. (2023), who also concluded that all regional revenue sources collectively influence capital expenditure. Thus, optimizing the structure of local revenue is a key factor in enhancing the quality of development spending.

CONCLUSION

The findings indicate that Locally-Generated Revenue (PAD) significantly promotes capital expenditure, suggesting that strengthening regional fiscal autonomy through optimized local revenue sources can enhance a region's capacity to finance fixed assets and public infrastructure.

Furthermore, the General Allocation Fund (DAU) also demonstrates a significant positive correlation with capital spending. It underscores the continued importance of central government transfers in supporting regional development funding, even given their block-grant nature. The results imply that a number of local governments have been able to utilize DAU for dual purposes—funding both routine expenditures and productive, long-term oriented investments. In addition, the Special Allocation Fund (DAK) exerts a positive and significant influence on capital expenditure, reflecting the effectiveness of DAK as a fiscal instrument specifically designed to fund priority development activities such as infrastructure, education, and health. The earmarked nature of DAK makes it a funding source that directly stimulates local government investment in fixed asset acquisition.

In contrast to the other variables, the Revenue Sharing Fund (DBH) was found to have a significant negative effect on capital expenditure. It indicates that increases in DBH are not consistently followed by higher capital spending allocations, likely due to DBH being more frequently directed toward operational expenditures and its relatively small proportion within the regional revenue structure. These results highlight a divergence between theoretical expectations and actual fiscal management practices concerning DBH utilization. Collectively, the regional revenue components—comprising PAD, DAU, DAK, and DBH—exert a significant joint influence on capital expenditure. Demonstrates that a region's fiscal capacity, derived from both internal revenue and external transfers, plays a crucial collective role in shaping capital expenditure policy and budgeting in Indonesia.

Policy Implications

Based on the study's findings, local governments are advised to strengthen fiscal independence by optimizing PAD, given its proven significant role in capital expenditure budgeting. The management of transfer funds, particularly DAU and DAK, should also be guided more strategically to support not only routine spending but also productive, long-term development investments. Meanwhile, the utilization of DBH requires reevaluation to direct its allocation toward capital expenditure better, as the research reveals a tendency for DBH to be used for non-investment purposes. Furthermore, strategic collaboration between central and regional governments and improved fiscal governance are essential to ensure that PAD and balancing funds complement each other and optimally support sustainable regional development.

This study acknowledges several limitations that contextualize its findings. The provincial-level aggregation may obscure district/city variations where service delivery predominantly occurs. The model excludes potentially significant variables such as governance quality indicators and institutional capacity measures. The 2019-2024 analysis period encompasses the COVID-19 pandemic's atypical fiscal conditions, potentially affecting generalizability. While panel data with fixed effects improves causal inference, definitive causality cannot be established due to potential endogeneity. Additionally, nominal measurement without inflation adjustment may influence intertemporal comparisons, though fixed effects modeling partially mitigates this concern.

Future research directions should address these limitations through district-level disaggregated analysis, mixed-methods approaches incorporating qualitative insights, and extended timeframes distinguishing cyclical from structural patterns. Studies integrating governance and political variables as moderators would enrich contextual understanding, while sector-specific analyses could reveal differential funding patterns across infrastructure types. Comparative international research and impact evaluations of capital expenditure outcomes would further strengthen the evidence base for optimizing Indonesia's fiscal decentralization framework to advance sustainable regional development.

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