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The influence of regional original revenue, general allocation fund, and special allocation fund on gross regional domestic product through capital expenditure in North Sulawesi Province for the 2011–2022 period

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ABSTRACT

The amendment of Law Number 22 of 1999 to Law Number 32 of 2004 represents a policy initiative by the central government to grant broader autonomy to local governments, allowing them to manage their own administrative and financial affairs with minimal intervention. In this context, local governments also gain wider authority to utilize financial resources in accordance with regional needs and the aspirations of the local population. This study aims to examine the influence of Regional Original Revenue, the General Allocation Fund, and the Special Allocation Fund on Gross Regional Domestic Product, with Capital Expenditure serving as an intervening variable in the Provincial Government of North Sulawesi. The research utilizes secondary data obtained from the Regional Revenue and Expenditure Budget Realization Reports of North Sulawesi Province and the Central Bureau of Statistics for the period 2011–2022. The relationships among variables are analyzed using multiple linear regression and path analysis. The results show that Regional Original Revenue and the General Allocation Fund have a significant positive effect on Capital Expenditure, while the Special Allocation Fund has no significant effect. Regional Original Revenue also has a significant positive effect on Gross Regional Domestic Product. In contrast, the General Allocation Fund and the Special Allocation Fund have no significant effect on Gross Regional Domestic Product. Meanwhile, Capital Expenditure has a significant positive effect on Gross Regional Domestic Product.

Keywords: local revenue; general allocation fund; special allocation fund; revenue sharing fund; capital expenditure and gross regional domestic product
JEL Classification: H72; H77; R11

1. Introduction

Economic development is a multidimensional process that involves various fundamental changes in social structures. In addition to pursuing accelerated economic growth, development also emphasizes poverty alleviation, addressing income inequality, and facilitating social transformation toward a more prosperous society (Todaro & Smith, 2004). At the regional level, economic development reflects the interaction between society and local governments in managing available resources. Local governments play a strategic role in formulating and implementing policies aimed at promoting regional economic development.

Economic growth demonstrates the extent to which economic activities contribute to increasing the income of the population over a certain period. A key indicator of economic growth is Gross Domestic Product (GDP), which measures the added value generated from all economic production activities (Susanti et al., 2000). At the regional level, economic growth is represented by Gross Regional Domestic Product (GRDP), while GRDP per capita provides a microeconomic perspective (Djoyohadikusumo, 1994). GRDP is widely used as a standard measure to assess regional economic performance and societal welfare.

As one of Indonesia's autonomous regions, North Sulawesi Province plays a significant role in supporting national economic growth. Each province is expected to meet its development targets, address local challenges, and realize sustainable economic growth. With its strategic geographical location and abundant natural resources, North Sulawesi has considerable potential to increase its GRDP and enhance overall economic performance. Data from 2010 to 2023 indicate fluctuations in North Sulawesi's GRDP growth. In 2020, the COVID-19 pandemic caused a decline in GRDP growth to -0.99%, compared to 5.65% in 2019. However, a positive recovery trend emerged in 2021 with a growth rate of 4.16%, which continued to rise to 5.48% by 2023.

To boost regional income, the provincial government has actively worked to optimize local revenue sources, particularly Regional Original Revenue (or PAD). The level of PAD collected across districts and cities in North Sulawesi serves as an important indicator of fiscal independence. However, the overall contribution of PAD remains relatively low compared to intergovernmental transfers, suggesting that regional development remains heavily dependent on central government support through the General Allocation Fund (or DAU) and the Special Allocation Fund (or DAK). The Regional Revenue and Expenditure Budget (or APBD) is the annual financial plan enacted by local governments through regional regulations. APBD consists of three main components: regional revenue, regional expenditure, and regional financing. Regional revenue includes PAD, revenue-sharing funds, general and special allocation funds, and other lawful sources. PAD is a critical revenue component as it reflects a region's ability to generate income from within its jurisdiction through taxes, retributions, asset management, and other sources permitted by law (Law No. 1 of 2022).

Balancing funds such as DAU, DAK, and revenue-sharing funds are sourced from the State Budget (or APBN) and are intended to reduce interregional disparities by enabling equal access to public services. Alongside PAD, these transfers serve as key financial resources that guide local governments in allocating budgetary spending, particularly capital expenditure (Direktorat Jenderal Perimbangan Keuangan, 2017). Regional expenditure refers to all disbursements that reduce the regional cash balance within a fiscal year. Capital expenditure, as one of its key components, is used to procure tangible fixed assets with a useful life exceeding twelve months, intended for government operations (Sholihin, 2006). Capital expenditure plays a vital role in enhancing public infrastructure and supporting long-term productivity and welfare improvements (Priyatmo et al., 2024). It typically includes spending on land, equipment and machinery, buildings, roads, irrigation, and other physical assets (Syaiful, 2006).

Regional financing, the third APBD component, includes receipts and disbursements that must be repaid or recovered in the current or subsequent fiscal years. Financing sources may include budget surpluses from previous years (or SiLPA), regional loans, or local bonds, while financing uses often involve capital participation (regional investment) or debt repayments (Direktorat Jenderal Perimbangan Keuangan, 2017). The relationship between government and society can be observed through the government's obligation to provide quality public services by effectively utilizing PAD and allocating it to capital expenditure. Regions with abundant resources or advanced development tend to collect more PAD and demonstrate higher fiscal independence. Conversely, regions with limited PAD rely more heavily on DAU and DAK. These allocation funds are intended to ensure equity by considering both fiscal capacity and regional needs (Adyatma & Oktaviani, 2015).

Regional independence is achieved when a region is no longer reliant on external support. This can be measured by the ratio of PAD to total regional revenue. A higher PAD ratio indicates greater fiscal autonomy, while a lower ratio reflects dependence on central government transfers (Direktorat Jenderal Perimbangan Keuangan, 2017). In 2021, North Sulawesi Province, consisting of 11 regencies and 4 cities, reported PAD realization of Rp1.48 trillion. This amount marked an increase compared to previous years, yet the overall share of intergovernmental transfers remains substantial. In line with the above background, this study aims to examine the effects of regional original revenue, general allocation fund, and special allocation fund on gross regional domestic product, with capital expenditure serving as a mediating variable in North Sulawesi Province.

2. Literature review

The basic concepts

GRDP is a crucial indicator for describing the economic condition of a region within a specific period. GRDP reflects the added value generated by all business units in the region or the total value of final goods and services produced (Suparmoko, 2006). According to the Central Statistics Agency (or Badan Pusat Statistik, 2025), GRDP is calculated using three approaches: (1) the production approach, which measures the value of final goods and services from production units; (2) the income approach, which accounts for the remuneration of production factors such as wages, rents, interest, and profits; and (3) the expenditure approach, which includes total final demand such as consumption, investment, and net exports. GRDP can be measured in both nominal and real terms (Samuelson & Nordhaus, 2010). Nominal GRDP is calculated using current prices for each year, while real GRDP is calculated using constant prices based on a designated base year, namely the year 2000. This base year was selected due to its reflection of a stable socio-economic condition and as the onset of national economic recovery. Regional economic growth is indicated by an increase in real GRDP, which demonstrates the growth in the volume of goods and services produced.

The APBD is an annual financial plan established by regional regulation (Direktorat Jenderal Perimbangan

Keuangan, 2017). APBD serves as the main policy instrument to strengthen the capability and effectiveness of regional governments. It also functions as a tool for decision-making, development planning, performance evaluation, employee motivation, and coordination among organizational units. In accordance with Ministry of Home Affairs Regulation No. 77 of 2020, APBD consists of three main components: (1) regional revenues, which include PAD, transfer funds, and other legitimate revenues; (2) regional expenditures, including operating, capital, unexpected, and transfer expenditures; and (3) regional financing, comprising both financing receipts and disbursements. According to Patarai (2016), APBD performs six primary functions:

1. Authorization, as the legal basis for implementing revenues and expenditures;
2. Planning, as a guideline for designing programs and activities;
3. Supervision, to assess the compliance of government implementation;
4. Allocation, to reduce unemployment and enhance efficiency;
5. Distribution, to uphold equity and fairness;
6. Stabilization, to maintain regional economic stability.

According to Government Regulation No. 12 of 2019, capital expenditure refers to outlays for acquiring fixed assets or other assets with a useful life of more than one year, such as land, equipment, and machinery, which support government activities. Capital expenditure plays a strategic role as it directly relates to economic growth, public welfare, and productivity improvement. Syaiful (2006) categorizes capital expenditures into five main types:

1. Land capital expenditures, covering land acquisition and preparation costs until the land is ready for use;
2. Equipment and machinery capital expenditures, for procuring or enhancing the capacity of assets with a useful life exceeding 12 months;
3. Building and construction capital expenditures, including planning and construction costs until the facility is operational;
4. Road, irrigation, and network capital expenditures, comprising the development and maintenance of transport and irrigation infrastructure;
5. Other physical capital expenditures, for assets not classified under the above categories, such as artworks, livestock, plants, books, and scientific journals.

Overall, capital expenditure is a crucial instrument in supporting sustainable regional development.

PAD refers to income earned by regional governments from sources independently developed. According to Law No. 1 of 2022, PAD consists of regional taxes, regional retributions, profits from separated regional assets, and other legitimate PAD sources. Kadir (2009) defines regional taxes as mandatory levies without direct compensation, serving two main functions:

1. The budgetary function, to optimally finance government expenditures;
2. The regulatory function, as a policy tool to influence economic and social activities.

Regional retribution is a charge imposed for services or permits provided by the regional government (Abd Madjid et al., 2024; Wagania et al., 2024). Kadir (2009) classifies retributions into three categories:

1. General service retributions, for basic public services;
2. Business service retributions, for commercially valuable services;
3. Specific licensing retributions, for regulating the use of space and natural resources.

Profits from separated regional assets include returns on regional government capital investment in state- or region-owned enterprises (or BUMN/BUMD).

Other legitimate PAD sources comprise revenues from asset sales, interest from bank deposits, foreign exchange gains, commissions from inter-regional trade, and procurement activities (Sholihin, 2006). PAD plays an essential role in enhancing regional fiscal independence and serves as a more flexible and sustainable source of development financing.

DAU is one form of fiscal transfer from the central government to regional governments, sourced from the national budget (or APBN), aimed at equalizing fiscal capacity among regions within the framework of fiscal decentralization (Law No. 1 of 2022). DAU is allocated to provinces and regencies/municipalities in a minimum proportion of 26% of net domestic revenues, adjusted according to intergovernmental authority distribution. The allocation considers interregional fiscal disparities based on each region's fiscal potential and needs. Regions with high fiscal capacity but low fiscal needs receive lower DAU allocations, while those with low capacity and high needs receive more substantial allocations. This mechanism ensures adequate funding for regional development, particularly when regional revenues are net of personnel expenditures (Halim, 2002). Despite the implementation of fiscal decentralization, interprovincial economic disparities persist due to the suboptimal management of natural resources and regional taxes. Consequently, the central government provides progressive subsidies through DAU to guarantee regional development financing and reduce fiscal inequality (Halim, 2002).

The DAK is part of the central-to-regional financial transfer mechanism aimed at reducing regional growth disparities and sectoral service imbalances, while also improving the availability of physical infrastructure in alignment with national priorities (Admaja & Hamid, 2024). DAK-funded infrastructure projects reflect the principles of decentralization, accountability, and regional responsibility in delivering essential public services. According to Law No. 23 of 2014 and Law No. 1 of 2022, regions receiving DAK are required to allocate a minimum of 10% matching funds in their APBD. However, if a region's actual expenditure exceeds the amount received through DAK, the matching fund requirement is waived. Not all regions are eligible to receive DAK, as it is selectively distributed to address physical infrastructure deficiencies (Admaja & Hamid, 2024).

Hypothesis development

The effect of PAD on capital expenditure

PAD refers to regional revenue derived from regional taxes, retributions, the management of separated regional assets, and other lawful regional income sources. PAD aims to provide regions with fiscal autonomy to fund local governance as a manifestation of the decentralization principle (Sholihin, 2006). Capital expenditure is defined as budget spending allocated for the acquisition of fixed assets and other long-term assets that provide benefits for more than one accounting period (Direktorat Jenderal Perimbangan Keuangan, 2017). Given the authority to manage their own affairs, local governments strive to improve community welfare. Citizens contribute to increasing PAD through tax payments, retributions, and other means. One of the government's primary efforts to enhance public welfare is through the provision of public infrastructure, which is financed annually via capital expenditures. As PAD is a major funding source for capital expenditure, studies by Hermawan et al. (2016), Juniawan and Suryantini (2018), Maheni and Maryono (2021), and Rowena and Hanifa (2024) have found a significant positive influence of PAD on capital expenditure. Based on this discussion, the following hypothesis is formulated:

H1: PAD has a significant effect on capital expenditure

The effect of DAU on capital expenditure

According to Government Regulation No. 12 of 2019, DAU is sourced from the state budget (or APBN) and allocated to equalize fiscal capacity among regions, enabling them to finance local needs in the context of decentralization. To address disparities in financial needs and tax authority between the central and regional governments, a fiscal balance mechanism is implemented through revenue-sharing and general allocation funds, with a minimum allocation of 26% of domestic revenues (Adyatma & Oktaviani, 2015). The existence of fiscal balance, particularly through DAU, ensures funding sources for regions to finance expenditures, including capital expenditure. Hermawan et al. (2016) and Maheni and Maryono (2021) reported that DAU does not significantly affect capital expenditure. Conversely, Nugraha and Dwirandra (2016), Juniawan and Suryantini (2018), and Rowena and Hanifa (2024) found that DAU does influence capital expenditure. Based on this discussion, the following hypothesis is proposed:

H2: DAU has a significant effect on capital expenditure

The effect of DAK on capital expenditure

DAK refers to funds allocated to regions to address specific needs. Regulations outline three criteria for special needs: (1) needs not captured by DAU formulas, (2) needs representing national priorities or commitments, and (3) activities related to reforestation and rehabilitation in production areas. DAK functions as a targeted fiscal transfer from the central government through the APBN to regional governments to support specific programs. According to Juniawan and Suryantini (2018), DAK positively affects capital expenditure by enabling regions to meet infrastructure demands and public service provisions. However, other studies yield divergent findings. In contrast, Hermawan et al. (2016) and Maheni and Maryono (2021) reported that DAK has no significant effect on capital expenditure. Based on this discussion, the following hypothesis is formulated:

H3: DAK has a significant effect on capital expenditure

The effect of PAD on GRDP

PAD represents revenues collected by regions based on local regulations. Since the implementation of fiscal decentralization, local governments have competed to increase PAD, which is seen as an indicator of a region's ability to finance development independently. Higher PAD can stimulate greater economic activity, contributing to GRDP. Empirical studies by Oktafia et al. (2018), Kristanti (2021), and Larasati et al. (2024) demonstrate a significant and positive influence of PAD on GRDP. Based on this discussion, the following hypothesis is proposed:

H4: PAD has a significant effect on GRDP

The effect of DAU on GRDP

DAU is a fiscal transfer from the APBN intended to equalize financial capacity among regions to support expenditure needs under decentralization. This financial balancing is a direct consequence of the delegation of central government authority to local governments. Consequently, a significant portion of the APBN is transferred to regional governments, who are free to use these funds to improve public service delivery. Empirical evidence by Oktafia et al. (2018), Kristanti (2021), and Larasati et al. (2024) confirms that DAU has a significant and positive effect on GRDP. Therefore, the following hypothesis is formulated:

H5: DAU has a significant effect on GRDP

The effect of DAK on GRDP

DAK originates from the APBN and is allocated to certain regions to finance special governmental functions that fall under regional authority. Its purpose includes assisting regions with below-average fiscal capacity in financing the development of basic service infrastructure, thereby accelerating regional development. While Oktafia et al. (2018) found that DAK significantly and positively affects GRDP, Kristanti (2021) and Larasati et al. (2024) found no significant relationship. Based on this discrepancy, the following hypothesis is proposed:

H6: DAK has a significant effect on GRDP

The effect of capital expenditure on GRDP

Capital expenditure is part of regional government budgets aimed at forming regional capital by increasing fixed assets. This aligns with the theory of economic growth proposed by Harrod (1939) and Domar (1946), which states that capital formation is a prerequisite for sustainable economic development. Accordingly, increased capital expenditure is expected to enhance GRDP, as capital constitutes a crucial input for production and economic growth. Empirical findings vary: Kristanti (2021) reported that capital expenditure does not significantly influence GRDP, whereas Savira et al. (2022) and Pasaribu and Ariani (2023) found a significant and positive relationship. Thus, the following hypothesis is formulated:

H7: Capital expenditure has a significant effect on GRDP

3. Research method

This study is a quantitative research, which is structured and aims to quantify data to enable generalization of the findings. The research type employed is associative-causal research, which is aimed at identifying relationships between two or more variables. Secondary data were obtained from the Budget Realization Reports of the Regional Revenue and Expenditure Budget (APBD) of the Provincial Government of North Sulawesi for the period from 2011 to 2022, sourced from the Regional Financial and Asset Management Agency of the North Sulawesi Provincial Government.

The variables in this study include PAD, DAU, DAK, capital expenditure or CapExp, and GRDP. The analytical method employed in this research is path analysis, which is an extension of multiple linear regression analysis. Path analysis is used to estimate causal relationships that have been theoretically established, with the aim of explaining both direct and indirect effects among variables. The path equation models used in this study are as follows:

$$CapExp = \alpha + \beta.PAD + \beta.DAU + \beta.DAK + \varepsilon \quad (1)$$
$$GRDP_1 = \alpha + \beta.PAD + \beta.DAU + \beta.DAK + \varepsilon \quad (2)$$
$$GRDP_2 = \alpha + \beta.CapExp + \varepsilon \quad (3)$$

In these equations, β denotes the path coefficients of the variables PAD, DAU, DAK, and capital expenditure, while ε represents the residual error in each model. A 5% significance level is used for hypothesis testing.

4. Result and discussion

Result

Table 1 presents the path analysis results for the CapExp model, with PAD, DAU, and DAK as independent variables. The test results indicate that the statistical values of all independent variables are not significant to CapExp at the 5% significance level. Furthermore, the coefficient of determination (Adjusted R-squared) is 0.788289, indicating that approximately 78.83% of the variation in CapExp can be explained by the independent variables included in the model, while the remaining portion is influenced by other factors not accounted for in this study. The study also finds that the F-statistic value of 14.65253 is significant at the 5% level, suggesting that the CapExp path model is overall a good fit or has a significant simultaneous effect.

Table 1. Regression Eq. 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	-4.408356	5.406623	-0.815362	0.4385
PAD	0.684672	0.431440	1.586947	0.1512
DAU	0.613051	0.624534	0.981613	0.3550
DAK	0.059829	0.100205	0.597069	0.5670

Adjusted R-squared: 0.788289
F-statistic: 14.65253
Prob. F-statistic: 0.001295
Dependent variable: CapExp

Table 2 presents the path analysis results for the GRDP model, with PAD, DAU, and DAK as independent variables. The test results indicate that the statistical value of DAU is not significant to GRDP at the 5% significance level. In contrast, the statistical values of PAD and DAK are found to be positive and significant to GRDP. Furthermore, the coefficient of determination (Adjusted R-squared) is 0.880998, indicating that approximately 88.10% of the variation in GRDP can be explained by the independent variables included in the model, while the remaining portion is influenced by other factors not accounted for in this study. The study also finds that the F-statistic value of 28.14507 is significant at the 5% level, suggesting that the GRDP path model is overall a good fit or has a significant simultaneous effect.

Table 2. Regression Eq. 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	11.30880	1.591097	7.107546	0.0001
PAD	0.46584	0.126967	3.668968	0.0063
DAU	-0.33308	0.183792	-1.812286	0.1075
DAK	0.08496	0.029489	2.880961	0.0205

Adjusted R-squared: 0.880998
F-statistic: 28.14507
Prob. F-statistic: 0.000133
Dependent variable: GRDP

Table 3 presents the path analysis results for the GRDP model, with CapExp as the independent variable. The test results indicate that the statistical value of CapExp is positive and significant to GRDP at the 5% significance level. Furthermore, the coefficient of determination (Adjusted R-squared) is 0.552103, indicating that approximately 55.21% of the variation in GRDP can be explained by CapExp, while the remaining portion is influenced by other factors not included in this study. The study also finds that the F-statistic value of 14.55919 is significant at the 5% level, suggesting that the GRDP path model is overall a good fit or has a significant simultaneous effect.

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Table 3. Regression Eq. 3

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	10.27778	0.940727	10.92536	0.0000
CapExp	0.30222	0.079206	3.815651	0.0034

Adjusted R-squared: 0.552103
F-statistic: 14.55919
Prob. F-statistic: 0.003398
Dependent variable: GRDP

Discussion

The effect of PAD on capital expenditure

This study finds that PAD does not have a significant effect on capital expenditure (CapExp), leading to the rejection of H1. This finding implies that local own-source revenue does not have a direct impact on changes in capital expenditure. It can be interpreted that capital expenditure policies cannot be determined solely based on the magnitude of local own-source revenue. This result is inconsistent with the findings of Hermawan et al. (2016), Juniawan and Suryantini (2018), Maheni and Maryono (2021), and Rowena and Hanifa (2024).

The effect of DAU on capital expenditure

This study finds that DAU does not have a significant effect on capital expenditure (CapExp), resulting in the rejection of H2. This finding implies that the general allocation fund does not directly influence changes in capital expenditure. In contrast to the findings of Adyatma and Oktaviani (2015), this result suggests that capital expenditure policies cannot be directly determined when local governments receive general allocation funds from the national budget (APBN). This finding is consistent with Hermawan et al. (2016) and Maheni and Maryono (2021), but inconsistent with Nugraha and Dwirandra (2016), Juniawan and Suryantini (2018), and Rowena and Hanifa (2024).

The effect of DAK on capital expenditure

This study finds that DAK does not have a significant effect on capital expenditure (CapExp), leading to the rejection of H3. This finding implies that the special allocation fund does not directly influence changes in capital expenditure. It also indicates that capital expenditure policies cannot be directly determined when local governments receive special allocation funds from the national budget (APBN). Based on the findings, this study is inconsistent with Juniawan and Suryantini (2018), but consistent with Hermawan et al. (2016) and Maheni and Maryono (2021).

The effect of PAD on GRDP

This study finds that PAD has a significant effect on GRDP, resulting in the acceptance of H4. This finding implies that local own-source revenue has a direct and significant impact on changes in GRDP. It indicates that GRDP growth can be directly influenced when local governments achieve optimal performance in revenue generation. An increase in local revenue enables greater allocation of funds by local governments to enhance public services, public facilities, and infrastructure development. Based on these findings, this study is consistent with the results of Oktafia et al. (2018), Kristanti (2021), and Larasati et al. (2024).

The effect of DAU on GRDP

This study finds that DAU does not have a significant effect on GRDP, leading to the rejection of H5. This finding implies that the general allocation fund does not directly influence changes in GRDP. It suggests that the general allocation fund tends not to serve as a reliable indicator of regional economic growth. This finding is inconsistent with the results of Oktafia et al. (2018), Kristanti (2021), and Larasati et al. (2024).

The effect of DAK on GRDP

This study finds that DAK has a significant effect on GRDP, resulting in the acceptance of H6. This finding implies that the special allocation fund directly influences changes in GRDP. It suggests that the special allocation fund tends to serve as an indicator of regional economic growth. This also indicates that local governments can utilize special allocation funds to improve public services, which in turn contributes to increased regional economic growth. Based on these findings, this study is consistent with Oktafia et al. (2018), but inconsistent with Kristanti (2021) and Larasati et al. (2024).

The effect of capital expenditure on GRDP

This study finds that CapExp has a significant effect on GRDP, leading to the acceptance of H7. This finding implies that capital expenditure directly impacts changes in GRDP. It also indicates that capital expenditure tends to be an important indicator of regional economic growth. Empirically, this result aligns with the economic growth theory proposed by Harrod (1939) and Domar (1946). However, it is inconsistent with the findings of Kristanti (2021), while remaining consistent with those of Savira et al. (2022) and Pasaribu and Ariani (2023).

5. Conclusion

This study provides empirical evidence on the varying impacts of regional fiscal components on capital expenditure and regional economic growth, as measured by Gross Regional Domestic Product (GRDP). The results indicate that Local Own-Source Revenue (PAD) and Special Allocation Fund (DAK) have significant and positive effects on GRDP, highlighting their important roles in driving regional economic development. Additionally, capital expenditure (CapExp) is found to be a significant contributor to GRDP, underscoring the critical role of investments in infrastructure and public services as key growth drivers consistent with established economic growth theories.

Conversely, the General Allocation Fund (DAU) does not exhibit a significant influence on either capital expenditure or GRDP, suggesting that this fund may not serve as a direct catalyst for regional economic performance. Moreover, the study finds that PAD, DAU, and DAK do not have a direct significant effect on capital expenditure, indicating that decisions related to capital expenditure are influenced by factors beyond the mere availability of fiscal resources. This highlights the complexity of fiscal policy execution at the local level, where budgetary decisions may be shaped by administrative, political, or strategic considerations.

Overall, the findings emphasize the necessity for local governments to optimize revenue generation and strategically manage special allocation funds to foster sustainable regional economic growth. Further research is warranted to explore the mechanisms through which fiscal components impact capital expenditure and to assess the influence of governance and institutional quality on fiscal policy effectiveness.

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