

The Effect of Locally-Generated Revenue, General Allocation Fund, Special Allocation Fund, and Revenue Sharing Fund on Capital Expenditure of Regencies and Municipalities in Indonesia

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ABSTRAK

This study aims to analyze the influence of regional revenue components namely Local Own-Source Revenue (PAD), the General Allocation Fund (DAU), the Special Allocation Fund (DAK), and Revenue Sharing Funds (DBH) on capital expenditure in regency and city governments across Indonesia for the period 2017–2020. The research uses a sample of 503 local governments and relies on secondary data obtained from the Regional Revenue and Expenditure Realization Reports (APBD) published by the Ministry of Finance. The data were analyzed using multiple linear regression. The results indicate that all components of regional revenue PAD, DAU, DAK, and DBH have a positive effect on capital expenditure. This finding suggests that the greater the fiscal capacity of local governments, the greater their ability to allocate funds for public investment, such as infrastructure, social facilities, and public service amenities. In other words, stronger regional revenue not only expands fiscal space but also reflects the commitment of local governments to strengthening long-term development through capital spending.

Keywords:

Locally-Generated Revenue (PAD); General Allocation Fund (DAU); Special Allocation Fund (DAK); Revenue Sharing Fund (DBH); Capital Expenditure

Pengaruh Pendapatan Asli Daerah, Dana Alokasi Umum, Dana Alokasi Khusus, Dan Dana Bagi Hasil Terhadap Belanja Modal Kabupaten/Kota Di Indonesia

ABSTRACT

Penelitian ini bertujuan untuk menganalisis pengaruh komponen pendapatan daerah yang meliputi Pendapatan Asli Daerah (PAD), Dana Alokasi Umum (DAU), Dana Alokasi Khusus (DAK), dan Dana Bagi Hasil (DBH) terhadap Belanja Modal pada pemerintah kabupaten/kota di Indonesia selama periode 2017–2020. Penelitian ini menggunakan sampel sebanyak 503 pemerintah daerah dengan data sekunder yang diperoleh dari Laporan Realisasi Pendapatan dan Belanja Daerah (APBD) yang diterbitkan oleh Kementerian Keuangan. Analisis dilakukan menggunakan regresi linier berganda. Hasil penelitian menunjukkan bahwa seluruh komponen pendapatan daerah, yaitu PAD, DAU, DAK, dan DBH, memiliki pengaruh positif terhadap Belanja Modal. Temuan ini mengindikasikan bahwa semakin besar kapasitas fiskal yang dimiliki pemerintah daerah, semakin besar pula kemampuan mereka untuk mengalokasikan anggaran bagi investasi publik, seperti infrastruktur, fasilitas sosial, dan sarana pelayanan umum. Dengan kata lain, pendapatan yang kuat tidak hanya meningkatkan ruang fiskal, tetapi juga mencerminkan komitmen pemerintah daerah dalam memperkuat pembangunan jangka panjang melalui belanja modal.

Kata Kunci:

Pendapatan Asli Daerah; Dana Alokasi Umum; Dana Alokasi Khusus; Dana Bagi Hasil; Belanja Modal

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INTRODUCTION

The implementation of regional autonomy has provided districts and municipalities with greater authority to enhance their fiscal capacity and strengthen development through more independent financial management. Nevertheless, many regions continue to struggle with limited locally generated revenue, a high dependence on central government transfers, and suboptimal capital expenditure despite its crucial role as a primary instrument for infrastructure provision and public service delivery. This pattern is especially evident in areas with constrained fiscal capacity, where transfers such as the General Allocation Fund (DAU), Special Allocation Fund (DAK), and Revenue-Sharing Fund (DBH) have not effectively driven development due to weak budgeting practices and inadequate governance (Permatasari & Mildawati, 2016).

The Mentawai Islands Regency illustrates this condition clearly. The region has relatively low locally generated revenue, resulting in a heavy reliance on intergovernmental transfers. Although it receives substantial allocations of Special Allocation Funds (DAK) and Revenue-Sharing Funds (DBH), the absorption of these funds remains low, and capital expenditures have yet to be implemented optimally or in a well-targeted manner. In fact, Mentawai possesses considerable economic potential such as tourism, marine resources, and forest products which could serve as important sources of local revenue if supported by adequate human resource capacity, governance quality, and infrastructure (Dana et al., 2021). The mismatch between the region's fiscal potential and its ability to manage it suggests that the issue lies not merely in the amount of funds received but in how effectively those funds are utilized. This situation underscores the need to examine how components of regional income such as PAD, DAU, DAK, and DBH contribute to capital expenditure as a means to better understand the fiscal dynamics that shape regional development outcomes.

Within the framework of regional autonomy, government spending performance particularly capital expenditure serves as a key indicator of how effectively local governments utilize their fiscal resources to improve public services and support development. Ideally, capital spending should reflect a region's commitment to long-term investments such as infrastructure, public facilities, and economic assets that facilitate community activities (Hermawan et al., 2021). However, practices across many regions reveal that spending patterns are not fully oriented toward productive activities. Routine expenditures continue to dominate local budgets, leaving capital expenditure relatively limited and stagnant despite the growing demands of development (Mu'am et al., 2023). This situation highlights the need to explore the factors that drive variations in capital expenditure across regions.

In this study, the primary focus is on the role of regional fiscal capacity, which is reflected through Local Own-Source Revenue (PAD), the General Allocation Fund (DAU), the Special Allocation Fund (DAK), and the Revenue-Sharing Fund (DBH). These four revenue components not only indicate the financial strength of a region but also illustrate its level of dependence on the central government. Understanding how each revenue source contributes to decisions regarding capital expenditure is therefore essential. Collectively, these variables function as determinants of both fiscal capacity and local government spending preferences.

PAD represents fiscal autonomy, meaning that regions with higher PAD typically have greater flexibility in allocating capital expenditures (Hardiningsih et al., 2018). Meanwhile, DAU and DBH serve as fiscal equalization instruments that enable less financially capable regions to fund development spending. DAK, on the other hand, plays a more targeted role, as it is specifically designed to finance priority sectors and cannot be allocated freely.

A number of previous studies have examined the relationship between regional revenue capacity and capital expenditure. Research conducted by (Oktora & Pontoh, 2013), (Rohmah, 2013), (Nurzen & Riharjo, 2016), (Permatasari & Mildawati, 2016), (Huda & Sumiati, 2019), Priambudi W. (2017), (Safitri et al., 2021), (Latif et al., 2022), (Mu'am et al., 2023), , (Sucito et al., 2023), (Kurniawan & Arnan, 2023) consistently found that PAD, DAU, DAK, and DBH exert a positive influence on capital expenditure. These studies also highlight the crucial role of intergovernmental transfers in supporting public spending at the regional level. However, other research indicates that the magnitude and direction of these effects may vary across regions and time periods, largely due to differences in fiscal structures and spending priorities.

On the other hand, recent literature highlights that although the General Allocation Fund (DAU) is intended to function as a fiscal equalization instrument, many local governments continue to allocate a substantial portion of it to operational spending particularly personnel expenditure resulting in an inconsistent contribution to capital expenditure (Kurniawan & Arnan, 2023). These findings suggest that the fiscal transfer mechanism does not always translate into stronger regional investment capacity as envisioned under the decentralization framework.

Although numerous studies have examined the determinants of capital expenditure, an important gap remains namely the inconsistent findings regarding the effects of PAD, DAU, DAK, and DBH across different regional fiscal contexts. Moreover, research with a national scope that simultaneously incorporates all four revenue sources is still relatively limited, particularly studies that analyze all districts and municipalities in Indonesia while accounting for variations in fiscal capacity across regions. Therefore, this study is significant because it offers a more comprehensive empirical overview of how the structure of regional revenues contributes to capital expenditure, while also providing novelty through the explicit inclusion of DBH as a variable and the use of a broader dataset compared to previous research.

Local Own-Source Revenue (PAD) represents a region's primary source of income for financing its expenditures Zulafah et al., (2023); and (Wulandari & Indra Arza, 2020). PAD also serves as an indicator of regional autonomy. The higher a region's PAD, the greater its ability to fund public needs without relying heavily on central government assistance (Nurzen & Riharjo, 2016) reflecting a stronger level of fiscal independence. Conversely, regions with low PAD tend to be more dependent on central transfers. As PAD increases, it is expected that regional governments will enhance their investment in capital expenditure, enabling them to deliver higher-quality public services. (Sucito et al., 2023) found that PAD has a positive effect on capital expenditure. Based on this empirical evidence, the following alternative hypothesis is proposed:

H1: Local Own-Source Revenue (PAD) has a positive effect on capital expenditure.

The General Allocation Fund (DAU) is a transfer from the national budget (APBN) intended to equalize fiscal capacity across regions so they can finance their expenditure needs within a decentralized governance framework (Lestari & Utama, 2019). This mechanism results in substantial transfers from the central government to local governments, which can then allocate these funds to support essential public services, including capital expenditure. Research by (Huda & Sumiati, 2019) found that the DAU significantly influences capital spending. Accordingly, the following alternative hypothesis is proposed:

H2: The General Allocation Fund (DAU) has a positive effect on capital expenditure.

The Special Allocation Fund (DAK) is a transfer from the national budget (APBN) provided to specific regions to support the financing of particular activities that fall under regional authority and align with national priorities. The use of DAK is focused on development investments, including the procurement, improvement, and rehabilitation of physical facilities and infrastructure with long-term economic value (Astutik & Kuntara, 2017). The allocation of DAK is expected to influence capital expenditure, as it is commonly directed toward increasing the stock of fixed assets owned by local governments to enhance public service delivery. Safitri et al., (2021) found that DAK has a positive and significant effect on capital expenditure. Based on these findings, the following alternative hypothesis is formulated:

H3: The Special Allocation Fund (DAK) has a positive effect on capital expenditure.

Revenue-Sharing Funds (DBH) are transfers from the national budget (APBN) allocated to regional governments based on a predetermined percentage to support regional financing needs within the framework of decentralization. In accordance with Law No. 33 of 2004, these funds originate from tax revenues and natural resource revenues. The central government determines the allocation of natural resource-based Revenue-Sharing Funds based on established calculation formulas and the producing regions. DBH, as part of regional income, is distributed according to the realized revenues of the current fiscal year. Permatasari & Mildawati, (2016) found that Revenue-Sharing Funds have a positive effect on capital expenditure. Based on this evidence, the following alternative hypothesis is proposed:

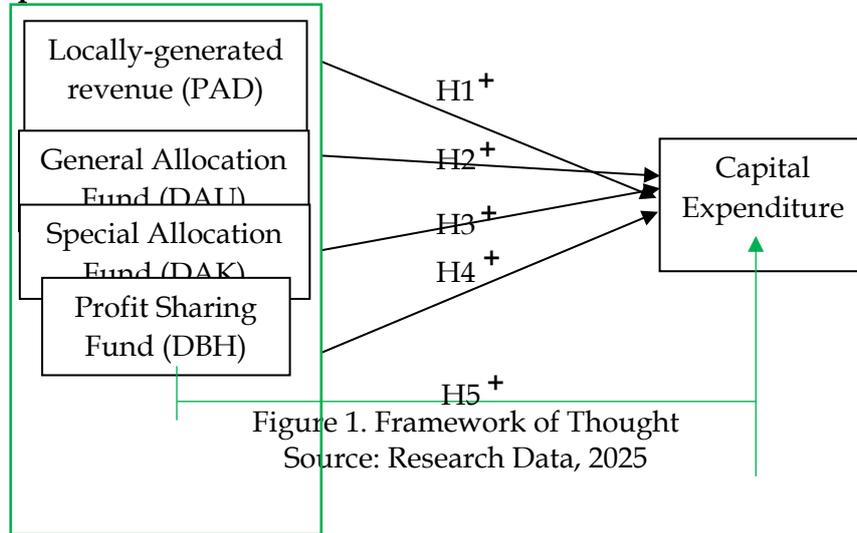
H4: Revenue-Sharing Funds (DBH) have a positive effect on capital expenditure.

Local Own-Source Revenue (PAD), the General Allocation Fund (DAU), the Special Allocation Fund (DAK), and Revenue-Sharing Funds (DBH) constitute key regional revenue sources used by local governments to finance various types of expenditure, including capital expenditure (Hutagalung et al., 2024). Capital expenditure is undertaken to provide essential public services to the community. To enhance the quality of public service delivery, local governments must prioritize and strengthen their investment in capital spending (Amelia et al., 2025). Therefore, it is crucial for regional governments to optimize the use of their

revenue sources PAD, DAU, DAK, and DBH. An increase in these revenue components is expected to positively influence the level of capital expenditure.

H5: PAD, DAU, DAK, and DBH jointly have a positive effect on capital expenditure.

Conceptual Framework



RESEARCH METHOD

This study employs a quantitative approach with an empirical research design that focuses on analyzing the relationships among variables to understand how regional revenue sources influence capital expenditure in district and municipal governments. This focus is essential because capital expenditure serves as a key instrument for delivering public services and developing infrastructure, making it necessary to comprehensively assess the extent to which PAD, DAU, DAK, and DBH contribute to regional investment capacity. The quantitative approach enables the researcher to examine relational patterns objectively and measurably using longitudinal regional financial data. The use of four-year panel data provides richer contextual insights into fiscal dynamics while enhancing the precision of the analysis.

The data used in this study were obtained from the Regional Budget Realization Reports (Realisasi APBD) published through the official portal of the Directorate General of Fiscal Balance (DJPK) of the Ministry of Finance. The dataset covers all district and municipal governments in Indonesia. Out of 508 regions in the population, 503 met the completeness criteria for the variables PAD, DAU, DAK, DBH, and capital expenditure, resulting in a total of 2,012 panel observations for the 2017–2020 period. The selection of the study period is based on considerations of data availability and consistency. Starting from 2021 onwards, DAU, DAK, and DBH are no longer reported separately, as they have been consolidated into ‘Fiscal Balance Funds’ in line with changes in government reporting policies. As a result, the structure of these variables becomes incomparable and cannot be consistently aligned with data from earlier years. Therefore, the 2017–2020 period was chosen, as it represents the final years in which DAU, DAK, and DBH were still published separately, allowing the data to be processed in accordance with the research variables. This period also ensures

consistency across variables and comparability between years, thereby strengthening the robustness of the analysis. Furthermore, fiscal policy reforms introduced after 2020 would require constructing new variables if more recent data were used, which would lead to misalignment with the focus of this study. All variables were operationalized using realized APBD values in accordance with standard practices in measuring regional financial performance. The data were analyzed using panel regression to identify both the simultaneous and partial effects of each type of regional revenue on capital expenditure, based on the following baseline equation:

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

This model was selected because it is capable of capturing both cross-sectional and temporal variations simultaneously, thereby providing a deeper understanding of the factors that shape public investment at the local government level.

Operationalization of Variables

Name	Operationalization of Variables	Data Source
Capital Expenditure	Measured using the natural logarithm (Ln) of realized capital expenditures, including land, buildings, equipment, and intangible assets.	DJPK Ministry of Finance
PAD	Measured using the natural logarithm (Ln) of the realized value of Regional Original Income (PAD).	DJPK Ministry of Finance
DAU	Measured using the natural logarithm (Ln) of the realized General Allocation Fund (DAU)	DJPK Ministry of Finance
DAK	Measured using the natural logarithm (Ln) of the realized Special Allocation Fund (DAK)	DJPK Ministry of Finance
DBH	Measured using the natural logarithm (Ln) of the realized Revenue Sharing Fund (DBH).	DJPK Ministry of Finance

Source: (Processed, 2025)

RESULTS AND DISCUSSIONS

Table 1
Statistical Description of Variables

Information	Mean	Deviation Standard	Min	Max
BM _{it}	298.69	215.73	32.74	2754.3
PAD _{it}	230.00	435.77	1.27	5381.92
DAU _{it}	674.47	284.28	79.26	2149.82

DAK _{it}	211.08	107.23	26.63	744.5
DBH _{it}	108.94	247.48	0.21	3670.77

Number of Observations = 2012 *)

In billions of rupiah

Source: Research Data, 2025

Table 1 shows that capital expenditure (BMit) has an average value of 298.69 billion rupiah with a standard deviation of 215.73 billion rupiah, ranging from 32.74 billion to 2,754.3 billion rupiah. These figures indicate substantial variation in regional investment capacity. Some local governments allocate less than 50 billion rupiah for capital expenditure, while others are able to allocate more than 2.7 trillion rupiah. This wide disparity reflects significant differences in development capacity across districts and municipalities in Indonesia.

For the PAD (locally generated revenue) variable, the average value of 230 billion rupiah with a standard deviation of 435.77 billion rupiah and a range from 1.27 billion to 5,381.92 billion rupiah indicates a far greater disparity than that observed in capital expenditure. The extremely low minimum and very high maximum values suggest that only a small number of regions have strong self-generated revenue capacity, while the majority still rely heavily on central government transfers. This variation is particularly relevant to the study, as PAD serves as a key indicator of regional fiscal independence.

For the General Allocation Fund (DAU) variable, the average value is 674.47 billion rupiah with a standard deviation of 284.28 billion and a range of 79.26 to 2,149.82 billion rupiah, indicating variation in funding across regions, though not as extreme as that of PAD. The relative stability of DAU reflects its primary function as a fiscal equalization instrument, designed to provide fairly uniform and sustainable fiscal support. Therefore, DAU represents one of the most reliable funding sources for the majority of local governments in financing public services and development programs.

For the Special Allocation Fund (DAK), the average value is 211.08 billion rupiah with a standard deviation of 107.23 billion and a range of 26.63 to 744.5 billion rupiah, indicating that this fund is allocated selectively based on national priorities or specific regional needs. The moderate variation suggests that DAK distribution follows targeted assignment objectives rather than an equalization formula.

For Revenue-Sharing Funds (DBH), the average value is 108.94 billion rupiah, with a standard deviation of 247.48 billion and a range from 0.21 to 3,670.77 billion rupiah. This substantial variation indicates that DBH is highly dependent on natural resources or specific economic activities. Only certain regions typically those rich in natural resources or major tax-generating centers receive very large DBH allocations, while many other regions receive minimal amounts.

Overall, the figures in the table demonstrate significant disparities in fiscal capacity across regions, both in terms of revenue and capital expenditure capability. Such wide variations provide a logical basis for investigating how PAD, DAU, DAK, and DBH influence the level of capital expenditure in each local government.

Table 2. Hypothesis Testing Results

Variable	Sign	BM _{it}
Cons.		6.291*** (0.000)
PAD _{it}	+	0.089 *** (0.000)
DAU _{it}	+	0.166*** (0.089)
DAK _{it}	+	0.340*** (0.000)
DBH _{it}	+	0.176*** (0.000)
<i>Obs.</i>		2012
<i>Prob > F</i>		0.0000
<i>Adj R-squared</i>		0.5604
<i>Vif means</i>		2.07

***, **, * = *P-value* signifikan 1%, 5%, 10%.

Source: Research Data, 2025

The results in the table indicate that Local Own-Source Revenue (PAD) has a coefficient of 0.089 with a p-value of 0.000, providing strong support for Hypothesis 1 (H1). This finding implies that an increase in PAD is followed by a rise in capital expenditure, suggesting that the greater a region's fiscal autonomy, the larger the fiscal space available for infrastructure development and public service provision.

The General Allocation Fund (DAU) shows a coefficient of 0.166 with significance at the 10% level (p-value = 0.089). Although its significance is weaker compared to other variables, this positive relationship still indicates that an increase in DAU tends to encourage higher capital expenditure. This aligns with the role of DAU as both a fiscal equalization instrument and a routine funding source, providing fiscal space for development spending.

The Special Allocation Fund (DAK) exhibits the strongest effect, with a coefficient of 0.340 and a p-value of 0.000. This result demonstrates that increases in DAK are closely associated with higher capital expenditure, as DAK is specifically designed to finance particular programs and physical projects. Consequently, these findings reinforce the understanding that DAK serves as a highly direct funding source for regional development activities.

Revenue-Sharing Funds (DBH) show a coefficient of 0.176 with a p-value of 0.000, indicating a positive and significant effect on capital expenditure. This finding suggests that additional regional revenue from DBH, whether derived from taxes or natural resources, is generally utilized to expand the fiscal capacity for regional development.

Overall, the model yields an Adjusted R-squared of 0.5604, meaning that approximately 56.04% of the variation in capital expenditure can be explained by the regional revenue components included in the model. The Prob > F value of 0.0000 confirms that the model is statistically significant. Additionally, the average VIF of 2.07 indicates that multicollinearity is not an issue, demonstrating that the model is appropriate for use.

The findings of this study are consistent with the results of Permatasari & Mildawati, (2016); Agus, (2020), Marpaung et al., (2022); Pratiwi, (2019) (Hairiyah et al., 2017) which indicate that Local Own-Source Revenue (PAD) has a positive effect on capital expenditure. The results suggest that higher PAD is associated with higher capital expenditure. An increase in PAD provides benefits for enhancing public facilities through the development of infrastructure and other physical assets, particularly in the construction of essential infrastructure.

The regression test for the second hypothesis in this study was conducted to examine whether the General Allocation Fund (DAU) affects capital expenditure. The results indicate that the regression coefficient for DAU is $\beta_2 = 0.166$ with a significance level of 0.000. The hypothesis test shows that since the significance is less than 0.05, H2 is accepted, meaning that DAU has a significant effect on capital expenditure.

The findings of this study are consistent with (Safitri, I., Hasibuan, B. K., & Silalahi, A. S. 2021), (Huda, S., & Sumiati, A. 2019), dan (Suryanishanti & Witono, 2022) which indicate that the General Allocation Fund (DAU) has a significant effect on capital expenditure. DAU plays a crucial role in influencing local government capital expenditure. As one of the main funding sources, DAU provides the financial stability needed to ensure that local governments have sufficient resources to carry out various development projects. With the availability of DAU, local governments can plan capital expenditure more reliably and allocate funds to vital infrastructure development essential for regional advancement. Moreover, the size of the DAU allocation can serve as an incentive for local governments to increase their capital spending, investing in projects that generate positive impacts on the community and local economic growth. Therefore, DAU's influence on local government capital expenditure represents a highly significant factor in regional development and progress.

The regression test for the third hypothesis in this study was conducted to examine whether the Special Allocation Fund (DAK) affects capital expenditure. The results indicate that the regression coefficient for DAK is $\beta_3 = 0.340$ with a significance level of 0.000. The hypothesis test shows that since the significance is less than 0.05, H3 is accepted, meaning that DAK has a positive effect on capital expenditure. This implies that the higher the DAK received by a region, the greater the capital expenditure that can be allocated by that region.

The findings of this study are consistent with the results of (Permatasari, I., & Mildawati, T. 2016), (Agus, P. 2020), (Safitri, I., Hasibuan, B. K., & Silalahi, A. S. 2021), (Oktora, F. E., & Pontoh, W. 2013), dan (Hairiyah, H., Malisan, L., & Fakhroni, Z. 2017) which indicate that the Special Allocation Fund (DAK) has a significant effect on capital expenditure. DAK is a funding source from the State Budget (APBN) allocated to local governments to support financing for specific needs. This fund is used to reduce disparities in public services across regions, with a focus on sectors such as education, health, infrastructure, marine and fisheries, agriculture, local government facilities, and the environment. For example, it can be used for the construction of health facilities such as community health centers (puskesmas), the construction or renovation of schools, and the repair of damaged roads. Therefore, it can be concluded that DAK is closely related

to capital expenditure, as its primary focus is on allocating funds for regional development projects and infrastructure improvement.

The regression test for the fourth hypothesis in this study was conducted to examine whether Revenue-Sharing Funds (DBH) affect capital expenditure. The results indicate that the regression coefficient for DBH is $\beta_4 = 0.176$ with a significance level of 0.000. The hypothesis test shows that since the significance is less than 0.05, H4 is accepted, meaning that DBH has a positive effect on capital expenditure. This implies that the higher the DBH received by a region, the greater the capital expenditure that can be allocated by that region.

These findings are consistent with the studies conducted by (Permatasari, I., & Mildawati, T. 2016), (Agus, P. 2020), and (Safitri, I., Hasibuan, B. K., & Silalahi, A. S. 2021) which indicate that Revenue-Sharing Funds (DBH) have a significant effect on capital expenditure. This means that the higher the DBH received by a region, the greater the capital expenditure that can be allocated by that region. DBH is funding sourced from the State Budget (APBN) and allocated to regions based on a predetermined percentage to finance local needs within the framework of decentralization. According to Law No. 33 of 2004, DBH is derived from taxes and regional wealth. The government determines the allocation of DBH originating from natural resources based on the calculation method and the producing region. DBH represents a region's right to manage national revenue sources generated within its territory, with the amount determined according to the relevant legislation.

CONCLUSION

Based on the research objective of examining the effects of Local Own-Source Revenue (PAD), the General Allocation Fund (DAU), the Special Allocation Fund (DAK), and Revenue-Sharing Funds (DBH) on capital expenditure, this study concludes that all four revenue sources play a crucial role in shaping the fiscal capacity of local governments. The significant relationship between regional revenue and capital expenditure indicates that an increase in fiscal capacity expands the ability of local governments to finance development, particularly long-term investments such as infrastructure and public service facilities.

Therefore, this study highlights that the sustainability of regional development is strongly influenced by how local governments manage and optimize their revenue sources.

This study has a limitation in that the scope of independent variables is still focused primarily on regional revenue components, and therefore does not capture other factors that may influence capital expenditure, such as regional characteristics or demographic aspects. Consequently, future research is recommended to include a more diverse set of variables, including non-financial factors such as land area, population size, or indicators of development needs, so that the analysis can provide a more comprehensive understanding of the determinants of local government capital expenditure.

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