DETERMINANTS OF CAPITAL EXPENDITURE ALLOCATION IN CENTRAL SULAWESI PROVINCE 2019–2023

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Abstract

This study examines the influence of Regional Original Revenue (PAD), Special Allocation Funds (DAK), and Economic Growth on Capital Expenditures in Regency and City Governments in Central Sulawesi between 2019 and 2023. Data are drawn from Regional Revenue and Expenditure Budget (APBD) reports issued by the Directorate General of Fiscal Balance (DJPK) and publications from the Central Statistics Agency (BPS). The researchers used panel data regression to test this information.The Common Effect Model was used. This method was chosen after conducting the Chow and Lagrange Multiplier tests. Before using the model, researchers checked the classical assumptions to ensure the reliability of the analysis. The results show that PAD, DAK, and Economic Growth collectively have a strong influence on Capital Expenditure, explaining approximately 53.53% of the variation. Each of these factors also has a positive and significant influence when considered separately. These results suggest that increasing fiscal capacity by better managing PAD, using DAK effectively, and maintaining stable economic growth can help increase regional investment through capital expenditure.

Keywords: Capital Expenditure; PAD; DAK; Economic Growth

INTRODUCTION

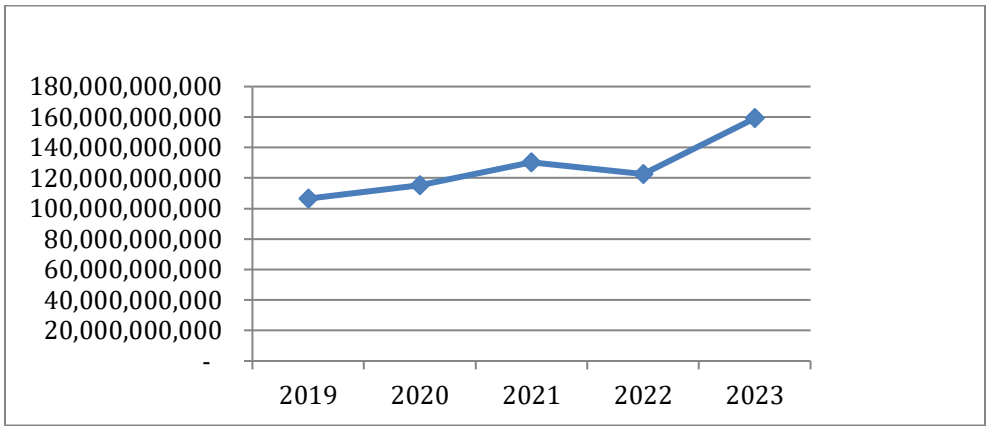
As a consequence of the implementation of regional autonomy, financial and resource management at the regional level is handed over independently to provincial and district/city governments. Giving local governments more control over finances allows them to create their own revenues and fund development projects, thereby reducing their dependence on the central government (Hidayah & Sari, 2022). According to Sarwono & Astuti, (2024), granting greater control over financial matters is expected to improve public service performance and help local governments become more financially independent. Each region must manage its budget intelligently, openly, and responsibly to provide the best public services.As stated in Law Number 23 of 2014 concerning Regional Government.In the process of distributing financial authority, how a region spends money on major projects is a key indicator of how well it can utilize its resources to provide direct benefits to the community (Wiryawan & Otchia, 2022).

Local Original Income, also known as PAD, plays an important role in helping a region become more financially independent. PAD shows how well a region can utilize its own economic resources (Kuntari et al., 2019). By increasing PAD, local governments can reduce their dependence on central government funds and gain more capacity to support development projects important (Kamala et al., 2025) From a public economic perspective, PAD serves to strengthen the regional fiscal structure and is an important indicator of the level of independence of a region (Azaki & Lutfi, 2023). On the other hand, capital expenditureis an expenditure instrument that represents the region's ability to convert revenue sources into long-term assets such as infrastructure, economic facilities, and public service facilities (Linda et al., 2025). Opinion Mualim et al., (2025), capital expenditure has an allocative and productive function because it plays a role in creating a multiplier effect (multiplier effect) on regional economic growth.

The way regions manage their finances is also influenced by the Special Allocation Fund, also known as DAK, which originates from the central government. This fund is provided to help regions finance important national projects such as road and bridge construction, improving health services, public education, and meeting other basic needs (Syukri et al., 2025). However, as stated by Nurhayati et al., (2015), The success of the Special Allocation Fund in supporting regional economic growth depends on how well the region utilizes the funds and how well its development plans are implemented. Along with PAD and DAK, economic growth is also a key indicator that shows how well a region can create income-generating economic activities and increase revenue. Regions with more frequent economic growth have more money available to spend on public projects, including capital expenditures, which help achieve long-term development goals (Zein et al., 2024).

Central Sulawesi Province has shown interesting fiscal dynamics over the past five years. Data from the Ministry of Finance's Directorate General of Taxes and Expenditures (DJPK) (2024) and Central Sulawesi Statistics Agency (BPS) (2024) shows that Regional Original Income (PAD) continues to experience growththroughout 2019 to 2023. On the other hand, the Special Allocation Fund (DAK) is one of the main sources of funding physical development through the central government has also increased, especially in the last two years. Central Sulawesi's economic growth accelerated post-pandemic, primarily supported by the industrial sector and mineral exports. However, this increase in fiscal capacity was not always accompanied by a proportional increase in capital spending. Capital spending fluctuated and tended to decline, raising questions about the effectiveness of regional revenue utilization to support infrastructure development.

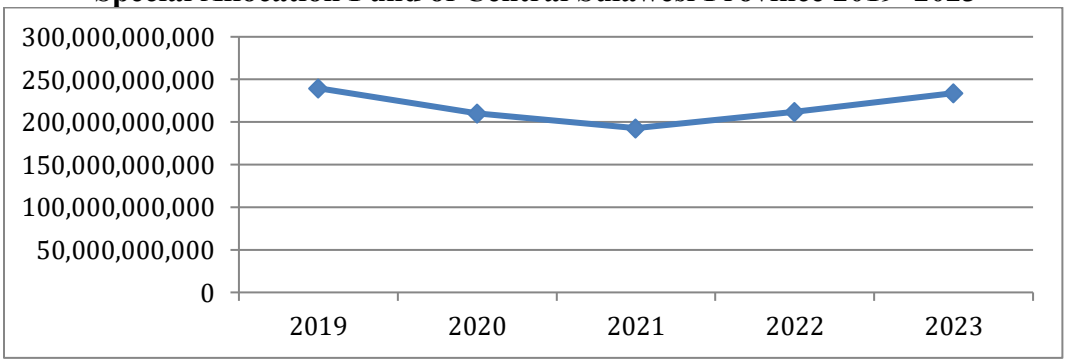
Figure 1.
Regional Original Income of Central Sulawesi Province 2019–2023



Source: Directorate General of Fiscal Balance, 2025

In 2023, total Regional Original Revenue (PAD) across all regencies and cities in Central Sulawesi Province reached IDR 2,069,144.71 trillion, reflecting an increase in overall fiscal capacity. The average PAD per region during the 2019–2023 period exhibited an unstable pattern. In 2019, the average PAD was IDR 106,517.86 billion, and continued to increase. However, in 2022, the average fell to IDR 122,500.90 billion before increasing significantly again in 2023, reaching IDR 159,164.97 billion. Morowali Regency consistently recorded the highest PAD, while Banggai Laut Regency recorded the lowest PAD in Central Sulawesi Province.

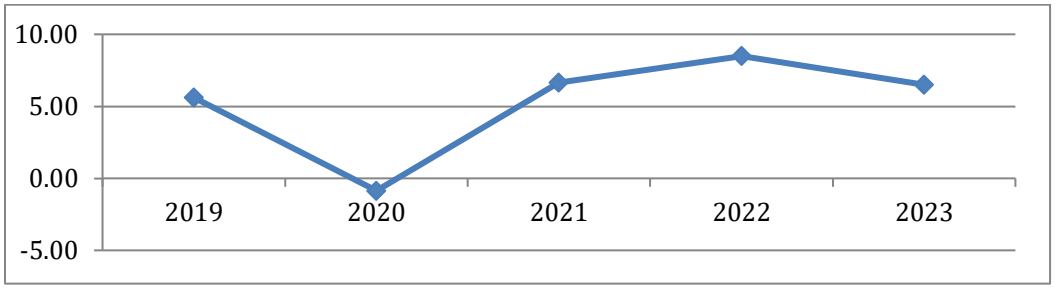
Figure 2.
Special Allocation Fund of Central Sulawesi Province 2019–2023



Source: Directorate General of Fiscal Balance, 2025

The average Special Allocation Fund (DAK) budget allocated to district and city governments in Central Sulawesi Province from 2019 to 2023 shows significant fluctuations in DAK allocations. In 2019, the average DAK was recorded at IDR 239,660.99 billion and continued to decline, reaching its lowest point in 2021 at IDR 192,788.15 billion. The allocation then increased again in 2022, reaching IDR 234,087.69 billion in 2023. This fluctuation reflects the dynamics of central government transfer policies, where changes in national priorities, the central government's fiscal conditions, and national needs such as pandemic management and economic recovery directly influence the amount of DAK received by regions.

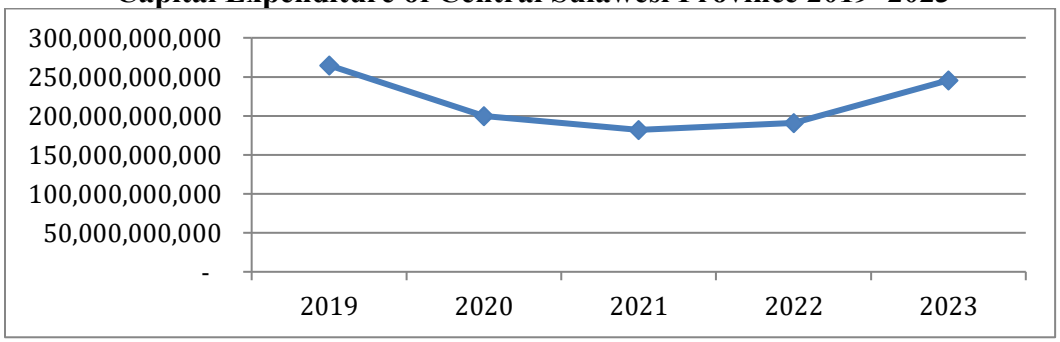
Figure 3.
Economic Growth of Central Sulawesi Province 2019–2023



Source: Central Sulawesi Statistics Agency, 2025

Economic growth in various regions and cities in Central Sulawesi from 2019 to 2023 showed a fluctuating pattern. Growth, which reached 5.59% in 2019, declined sharply to -0.86% in 2020, then recovered strongly in 2021 and reached a peak of 8.49% in 2022 before slowing again to 6.48% in 2023. Overall, the average growth during this period was recorded at 5.27%, with significant variation between regions. The highest growth occurred in North Morowali Regency in 2022 at 36.37%, while the lowest achievement occurred in Parigi Moutong Regency in 2020 at -4.95%, indicating disparities in economic capacity between regions in responding to changing economic conditions.

Figure 4.
Capital Expenditure of Central Sulawesi Province 2019–2023



Source: Directorate General of Fiscal Balance, 2025

Capital expenditure allocations in regencies/cities in Central Sulawesi Province from 2019 to 2023 showed an unstable trend. In nominal terms, total capital expenditures fluctuated from IDR 264,696.22 billion in 2019, dropping to IDR 199,987.91 billion in 2020, and then again to IDR 181,937.82 billion in 2021. In 2022, the allocation increased to IDR 191,063.09 billion, and in 2023, it rose significantly again to IDR 245,413.60 billion. Despite the increases in the past two years, capital expenditure levels have not fully recovered to their initial levels. When compared to total capital expenditure, local governments appear to be under-prioritizing capital expenditure in their budgets. On average, during the 2019–2023 period, capital expenditure accounted for approximately 17.06 percent of total regional spending. This condition indicates that fiscal space for public investment through capital expenditure is still limited, so that efforts to improve the quality of regional infrastructure have not been optimally promoted throughout the study period.

A region's fiscal performance depends not only on the volume of revenue collected, but also on the local government's capacity to convert that revenue into effective public investment. In the context of regional development, efficiency Capital expenditures are highly dependent on the government's ability to manage regional revenues, manage special funds, and adapt fiscal policy to economic changes. Therefore, it is important to understand how these factors interrelate,

based on economic theory and previous studies, to better analyze how regional governments spend their capital.

In theory, when local revenues increase, regions should receive more funds to invest in infrastructure development and improvements through capital expenditures. The idea of granting greater control over regional finances is based on the belief that more financially independent regions can better utilize their budgets to support beneficial and productive projects (Oates, 1972). Several studies support this positive relationship Hidayah & Sari, (2022) found that increasing PAD strengthens regional fiscal capacity to finance public investment programs Kuntari et al., (2019) He also explained that high PAD encourages increased capital expenditure because regions have greater flexibility in determining development priorities. However, Kakasih et al., (2018) find different things. They meshows that the increase in PAD does not necessarily have a large impact on capital expenditure, because most of the income is still directed towards routine operational expenditure needs.

The Special Allocation Fund (DAK) is a fund distributed by the central government to support various important projects in various regions. Ideally, as DAK funds increase, this will encourage increased spending on various projects such as schools, hospitals, and other essential facilities (Azaki & Lutfi, 2023). The Special Allocation Fund (DAK), provided by the central government, serves as a source of funding for long-term infrastructure and facility development. The use of these funds contributes to improving the quality of public services through capital expenditures. Therefore, the more capital a region receives, the more room it has to spend on large projects Conversely, when DAK allocation decreases, the regional capacity to allocate capital expenditure also decreases (Digdowiseiso & Lukman, 2019). Study Diaman & Handayani, (2023) said that providing more funds from the Special Allocation Fund (DAK) helps capital expenditure because it allows for more public investment in various areas. However, research Sarwono & Astuti, (2024) found that the effectiveness of DAK depends on the absorption capacity and managerial capabilities of local governments. Regions with low fiscal performance tend not to be able to utilize DAK optimally. Accordingly, Wiryawan & Otchia, (2022) He added that large transfer funds will not necessarily increase spending productivity if not accompanied by adequate management. Therefore, while DAK has significant potential to strengthen capital spending, its impact will vary across regions depending on the effectiveness of each region's fiscal management. Economic growth indicates how well a region can create more value and find new ways to generate revenue. Economically growing regions typically have more room in their budgets to spend on important projects. Furthermore, economic growth helps a region's finances by generating more tax revenue and other forms of income. (Zein et al., 2024) This is in line with Wagner's Law theory, which states that when economic growth increases, government activity in providing public goods and services, including infrastructure development, will also increase. Therefore, the more the economy grows, the greater the opportunity for a region to earn more money to spend on projects and equipment (Guritno, 2001). Many areasshows a high level of economic growth, but this developmenthas not yet driven increased funding allocations for projects and improvements. This is due to government policies that still focus on current spending, rather than long-term investment. Therefore, it is important to link economic development plans to how funds are planned and spent to ensure that growth truly helps increase public investment in these areas (Linda et al., 2025).

Although various studies have examined the influence of PAD, DAK, and economic growth on how capital expenditures are decided and distributed, the results have not been consistent. Some studies found a positive and significant relationship, while others showed inconsistent results across regions and time periods. This inconsistency suggests several key

research areas that require more attention and detailed study, particularly in regions with distinct fiscal characteristics such as Central Sulawesi Province. Based on the theory of fiscal federalism Oates, (1972), increasing regional fiscal capacity should encourage more efficient and productive spending. However, studies in Central Sulawesiindicates that although PAD, DAK, and economic growth ratesWhile capital expenditures increased between 2019 and 2023, they did not follow the same trend and instead fluctuated. Based on this, this study examines how PAD, DAK, and economic growth affect capital expenditures in provincial and city governments in Central Sulawesi during this period. The study's findings aim to provide concrete evidence that can help create better, more efficient, and more sustainable regional financial policies.

RESEARCH METHOD

This study was conducted in 13 regencies and cities in Central Sulawesi between 2019 and 2023. This region was chosen because Central Sulawesi has demonstrated strong financial activity over the past five years, with increases in regional revenue not always commensurate with the amount of capital invested. The study uses quantitative methods to clearly and systematically examine the interrelationships of various factors using panel data analysis.

Data comes from secondary sources, including websites. The Directorate General of Fiscal Balance (DJPK) under the Ministry of Finance of the Republic of Indonesia provides data on Regional Original Revenue (PAD), Special Allocation Funds (DAK), and real capital expenditures of local governments. Economic growth data for each district and city come from publications by the Central Statistics Agency (BPS). All of this data covers 13 different regions over five years, so it is panel data.

To understand how PAD, DAK, and economic growth influence local government spending on capital projects, this study uses a panel data regression model. The equation used in this study is as follows:

$$Y_{it} = a + \beta_1 X1_{it} + \beta_2 X2_{it} + \beta_3 X3_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Y_{it}: Capital Expenditure; a: Constant; B: Regression Coefficient; : Regional Original Income (PAD); : Special Allocation Fund (DAK); : Economic Growth; $X1_{it} X2_{it} X3_{it} \varepsilon_{it}$: Nuisance Error; i: Individual Unit; t: Time Period.

To find the best panel regression model, several tests are used. The Chow test helps determine between the Common Effects and Fixed Effects models. The Hausman test compares Fixed Effects with Random Effects. The Lagrange Multiplier (LM) test checks whether Random Effects is better than Common Effects. Once the appropriate model is selected, classical assumption tests are run. These tests check for normality, multicollinearity, heteroscedasticity, and autocorrelation. This ensures the model has the BLUE property, meaning it is the best unbiased linear estimator..

The next step is to examine the significance of each factor, starting with an F-test to determine how much influence all variables collectively have on the results. Then, a t-test is used to examine the effect of each variable individually. Additionally, an R-squared value is calculated to indicate how well the model explains changes in capital expenditures. For decision-making in the F-test and t-test, a 5% significance level ($\alpha = 0.05$) is used, and the p-value helps determine whether the results are statistically significant.

RESULTS AND DISCUSSION

Selecting the appropriate estimation model to show the relationship between the independent and dependent variables involves several testing steps. These steps allow researchers to examine and decide which model is most effective, whether it is a common effect, fixed effect, or random effect model.

Table 1. Chow Test

Test Type	Statistics	df	Prob.
Cross-section F	0.578166	(12.49)	0.8490
Cross-section Chi-square	8.607528	12	0.7360

The Chow test results show that the F-statistic and Chi-square probability are higher than 0.05. Therefore, the fixed effects model is not an appropriate choice, and the general effects model is more suitable for this situation.

Table 2. Lagrange Multiplier Test

Test Type	Statistics	Prob.
Breusch–Pagan LM	3.163180	0.0753

The Breusch–Pagan LM test gives a probability of 0.0753, which is higher thanfrom the threshold of 0.05. This means that the Random Effects model is not suitable, and the best choice is the Common Effects Model (CEM).

After going through all the steps to select the best estimation model, it was found that the relationship between the independent and dependent variables in this study was best explained by the Common Effects Model (CEM). The Chow test indicated that the Fixed Effects model was not a good fit because its probability value was higher than 0.05. Furthermore, the Lagrange Multiplier (LM) test also shows that the Random Effects model is not better than the common effects model, because the probability values are again above 0.05. Since both tests support the Common Effect model, there is no need to perform the Hausman test. Therefore, the Common Effects Model (CEM) was chosen as the base model. Panel regression analysis to assess the influence of independent variables on the dependent variables in this study.

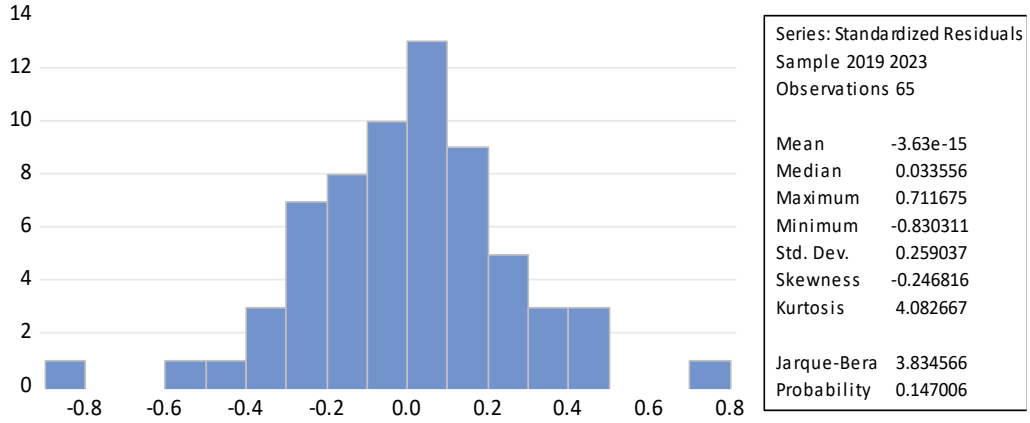
Classical Assumption Test

Before starting the regression estimation, the model will go through several standard checks such as normality, multicollinearity, heteroscedasticity, and autocorrelation. This step is important to ensure that the model meets the requirements. BLUE criteria and is suitable for use in the estimation process.

Normality Test

The normality test checks whether the residuals in a regression model are approximately normally distributed, which helps ensure the reliability of the analysis results. This test uses the Jarque-Bera statistic. If the probability value of the test is below 5%, this means that the residuals do not follow a normal distribution. However, if the probability is above 5%, it means the residuals are normally distributed.

Figure 5.
Normality Test Results



In Figure 5, the normality test shows a Jarque-Bera probability of 0.147006. Since this figure is above 0.05, the residuals follow a normal distribution. Therefore, the regression model is deemed to meet the normality requirements and is ready for use in the next section of the analysis.

Multicollinearity Test

The multicollinearity test checks whether there is a very strong relationship between the independent variables in a model. This test examines how closely related these variables are. If the correlation between two variables is less than 0.90, then multicollinearity is not a problem.

Table 3.
Multicollinearity test results

Variables	PAD	DAK	PE
PAD	1	0.25	0.36
DAK	0.25	1	-0.26
PE	0.39	-0.26	1

Based on Table 3, all the relationships between the independent variables are much lower than the limit of 0.90. The correlation between PAD and DAK is 0.25, between PAD and Economic Growth is 0.39, and between DAK and Economic Growth is -0.26. These figures indicate that there is no strong relationship between the independent variables. Therefore, the regression model in this study is considered free from multicollinearity, indicating that all independent variables are suitable for inclusion in the panel regression analysis.

Heteroscedasticity Test

The heteroscedasticity test examines whether the residuals from a regression model are evenly distributed across all levels. The Lagrange Ratio (LR) test is used for this test, considering both cross-sectional and time series aspects. A model is considered heteroscedasticity-free if its p-value is greater than 0.05.

Table 4
Heteroscedasticity Test Results

Test Type	LR Value	df	Prob	Conclusion
Cross-section	25.05782	13	0.0227	There is Heteroscedasticity
Period	8.426163	13	0.8148	No Heteroscedasticity

Based on Table 4, the Cross-section LR Test shows a probability value of 0.0227, which is lower than 0.05, indicating heteroscedasticity between districts/cities. Meanwhile, the Period LR Test produces a probability of 0.8148, exceeding 0.05, thus concluding that there is no heteroscedasticity between observation years. Because the model indicates heteroscedasticity in the cross-section dimension, further regression estimation is carried out using robust standard errors (White heteroscedasticity-consistent) so that the coefficients remain efficient and can be interpreted correctly.

Autocorrelation Test

The autocorrelation test examines whether residuals from one period are related to residuals from the previous period. This test uses the Durbin–Watson (DW) statistic, and when the value approaches 2, it indicates no autocorrelation.

Table 5.
Autocorrelation Test Results

Statistics	Mark
Durbin–Watson (DW)	1.605515

The Durbin–Watson value is 1.605515, which falls within the range of 1.5 to 2.5, indicating that the regression model has no autocorrelation, either positive or negative. The residuals at each time period are independent of each other, fulfilling the classical assumptions. This makes this model suitable for further analysis.

Panel Regression Estimation Results

After reviewing the results of the Chow test and the Lagrange Multiplier test, the best model was the Common Effects Model (CEM). This model was used to examine how local revenue (PAD), special allocation funds (DAK), and economic growth affect capital expenditures of district and city governments in Central Sulawesi Province. A summary of the findings from this model is shown in Table 6.

Table 6.
Common Effect Model Regression Estimation Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.25691	2.170600	4.725381	0.0000
LOG_PAD	0.229855	0.037440	6.139246	0.0000
LOG_DAK	0.380726	0.072061	5.283415	0.0000
PE	0.012594	0.003944	3193257	0.0022

Referring to the estimation results in Table 6, the general equation of the Common Effect Model can be written as follows:

$$LogBM_{it} = 10.25691 + 0.229LogPAD_{it} + 0.380LogDAK_{it} + 0.012PE_{it} \ldots..(2)$$

This study shows that Locally Generated Revenue (PAD) has a positive and significant effect on Capital Expenditure. The coefficient is 0.229855, and the p-value is 0.0000, which is lower than the significance threshold of 0.05. This means that if PAD increases by 1%, Capital Expenditure is expected to increase by approximately 0.229855%, assuming other factors remain constant. These results indicate that PAD plays a key role in increasing Capital Expenditure.

The Special Allocation Fund, also known as DAK, has a positive and significant impact on Capital Expenditure. Its coefficient is 0.380726, which is associated with a very small p-value of 0.0000. This means that if DAK increases by 1%, Capital Expenditure will increase by

approximately 0.380726%. This indicates that DAK is a major factor influencing the amount of Capital Expenditure in various regions.

Economic growth has a significant, unidirectional relationship with capital expenditure. The coefficient is 0.012594, and the p-value is 0.0022, smaller than 0.05. This means that every 1% increase in economic growth results in a 0.012594% increase in capital expenditure. This finding suggests that overall economic conditions, particularly growth, play a major role in determining how much a region can spend on capital.

F test

Table 7.
F Test Results

Alpha	F- Statistics	df	Prob. (F statistic)
0.05	23.42355	(3.61)	0.000000

The F-statistic probability value is 0.000000, less than 0.05. This indicates that the overall model is statistically significant. Simply put, PAD, DAK, and Economic Growth all have a significant influence on Capital Expenditure. These results indicate that these three variables together can explain a significant portion of changes in Capital Expenditure.

T-test

A t-test was conducted to assess the contribution of each independent variable to capital expenditure. Using the Common Effect Model estimation, supplemented with robust standard errors, all independent variables had probabilities below 0.05. This finding confirms that these three variables significantly influence capital expenditure of district/city governments in Central Sulawesi Province.

The Regional Original Income (PAD) variable shows a probability value of 0.0000, indicating it is significant at the 5% test level. Thus, the first hypothesis (H1) is supported. A positive coefficient indicates that an increase in PAD contributes to an increase in capital expenditure. This finding suggests that higher regional income allows the government to spend more on infrastructure.

The Special Allocation Fund (DAK) variable also shows a probability of 0.0000, making it significant at the 5% level and supporting the second hypothesis (H2). Its positive coefficient indicates that an increase in DAK allocation directly drives an increase in capital expenditure. This result aligns with DAK, which is a fund allocated for physical development projects.

Furthermore, the Economic Growth (PE) variable shows a probability value of 0.0022, which is smaller than 0.05. Therefore, the third hypothesis (H3) is supported. These results confirm that increased economic growth has a positive and significant effect on capital expenditure. Increased economic growth reflects increased activity in the regions in helping the government fund public investment.

Overall, the t-statistic test confirms that the variables of Regional Original Income, Special Allocation Funds, and Economic Growth each have a significant influence in driving regional government capital expenditure.

Coefficient of Determination

Table 8.
Results of the Determination Coefficient

Statistics	Mark
R-squared	0.535311
Adjusted R^2	0.512458

The R-squared value of 0.5353 indicates that 53.53% of the variation in capital expenditure can be explained by the PAD, DAK, and economic growth variables. Meanwhile, the remaining 46.47% is influenced by variables outside the model, such as employee spending, other types of central fund transfers, regional institutional conditions, and political dynamics.

The Influence of PAD on Capital Expenditure

Locally Generated Revenue (PAD) is the total income collected by local governments through local economic potential, consisting of local taxes, various levies, revenue from the use of regional assets, and various other legally recognized revenues. PAD serves as an important indicator of regional fiscal autonomy, as its level reflects the ability of local governments to maximize their financial resources independently of central government transfers.

The results of the hypothesis test indicate that the PAD variable has a positive and statistically significant effect on capital expenditure, with a p-value of 0.0000 < 0.05, which confirms the hypothesis. The regression coefficient value of 0.229855 indicates that every 1% increase in PAD causes an increase in capital expenditure of 0.229855%, assuming other factors remain constant. Therefore, it can be concluded that the increase in PAD contributes significantly to encouraging an increase in local government capital expenditure. This finding is also supported by data that the contribution of PAD to overall regional revenue in regencies/cities in Central Sulawesi, although relatively small, averaging 9.93% during the 2019–2023 period, continues to show an increasing trend. In detail, the contribution of PAD in 2019 was 7.75%, increasing to 9.53% in 2020, then rising to 10.51% in 2021, although slightly decreasing in 2022 to 9.87%, and increasing again in 2023 to reach 11.96% (DJPK Ministry of Finance, 2019–2023). This fact indicates that although the contribution of PAD is not yet dominant in the structure of regional revenue, each increase in PAD has a relatively direct impact on increasing capital expenditure, considering that PAD is a more flexible source of revenue compared to transfers from the center.

The results of this study support the idea of fiscal decentralization introduced Oates, (1972) shows that when the central government delegates financial decision-making authority to local governments, it can result in better utilization of public funds. Oates believes that local governments are more aware of what their communities want and what their regions need for growth. Therefore, they can offer services and resources through a more effective approach aligned with the demands of their communities than if all decisions were made from above. This framework is known as the Decentralization Theorem, which states that public services should be provided by the lowest level of government as long as the cost of implementation is not higher than if provided by the central government. In the context of local finance, Oates' theory emphasizes the importance of fiscal independence, which refers to the capacity of local governments to collect sufficient revenue to meet various development needs, including capital expenditures. Locally Generated Revenue (PAD), including Land and Building Tax (PBB), serves as a key pillar in the regional revenue structure, enabling regions to make development decisions with greater autonomy and agility. Increasing PAD expands the fiscal space available to local governments, giving them greater flexibility in allocating budgets for public services.

Empirically, the results of this study are in line with the findings Twinki & Widiyanti (2023), Rohmatullah et al. (2023), (Maulana et al. 2020), Sarif (2019) as well as Permatasari & Mildawati, (2016) confirms that PAD has a proven, significant impact on regional capital expenditures. Collectively, these studies confirm that increasing PAD can promote regional fiscal autonomy, offer more adaptive budget flexibility, and encourage more efficient allocation of capital expenditures to support the development process.

Therefore, it can be emphasized that local revenue (PAD) is a key variable influencing capital expenditure in Central Sulawesi Province. Consequently, local governments need to continue increasing PAD by optimizing local tax and levy collection mechanisms, strengthening the quality of public services, and managing regional assets more efficiently and effectively. These efforts will contribute to a sustainable increase in PAD, which in turn will expand fiscal space to finance capital expenditures to improve public welfare.

The Influence of DAK on Capital Expenditures

The Special Allocation Fund (DAK) is a transfer sourced from the State Budget (APBN) and provided to certain regions to support various activities deemed strategic and a national priority in the region. Generally, DAK is used to encourage development, improve the quality of public services and infrastructure, and to support minimum service standards in various regions. Thus, DAK helps regions manage their finances effectively in implementing sustainable development projects.

A study applying the Common Effect Model framework found that the Special Allocation Fund (DAK) has a positive and significant impact on the amount of government capital expenditure in Central Sulawesi's regencies and cities. This study showed a coefficient of 0.380726, indicating a low probability of less than 0.05. This means that for every 1% increase in DAK, the amount of capital expenditure increases by approximately 0.380726%, assuming other factors are held constant. Therefore, the increase in a region's DAK allocation increases the region's financial capacity to support capital expenditure, particularly for infrastructure and public services.

The contribution of the Special Allocation Fund (DAK) to total regional revenue during the 2019–2023 period was recorded at 17.43% in 2019, 17.40% in 2020, 15.53% in 2021, 17.10% in 2022, and 17.59% in 2023, with an average contribution over a five-year period of 17.01% (DJPK, Ministry of Finance, 2019–2023). This relatively stable contribution indicates that the DAK is one of the main financing pillars supporting regional fiscal needs. Although its portion is not as large as the General Allocation Fund (DAU), the DAK is specific because it is directed to finance certain development activities, such as infrastructure, basic services, and national priorities in the region. Thus, the DAK allocation can increase regional fiscal capacity to finance development programs, particularly capital expenditures, thus aligning with the objectives of the central government's fiscal transfers.

The results of this study are in line with the findings Samto et al., (2025), Diaman & Handayani, (2023) who both concluded that the Special Allocation Fund (DAK) has a significant influence on capital expenditure. They emphasized that DAK makes a significant contribution to increasing capital expenditure capacity because its use is specifically directed towards the development of specific sectors in line with national priorities. Overall, the findings of this study confirm that DAK plays an effective fiscal instrument in encouraging increased regional capital expenditure. The stable contribution of DAK to regional revenues and its earmarked nature of funding make DAK a source of financing that directly strengthens the capacity of regional governments to provide public infrastructure. Thus, these results confirm that DAK not only fulfills its function as fiscal support from the central government but also serves as a strategic factor in accelerating regional development through increased capital expenditure allocations. These findings imply that optimizing the management and absorption of DAK is crucial to ensure the effectiveness of physical development that can improve the quality of services to the people of Central Sulawesi Province.

The Effect of Economic Growth on Capital Expenditure

Economic growth reflects how well a region can sustainably produce goods and services. This is crucial for local governments because it indicates how much the regional economy can contribute to increasing regional revenue and the government's fiscal capacity to finance development. Regions with strong economic growth typically have more funds from taxes and levies, which provides more funds for local governments to spend on improving and developing public facilities.

Using the General Effects model, partial hypothesis testing shows that the dynamics of economic growth have a positive and significant impact on the amount of district and city government spending in Central Sulawesi on capital projects. The probability value of 0.0022 is smaller than 0.05, indicating that the hypothesis is supported. The regression result of 0.012594 indicates that a 1% increase in economic growth implies a 0.012594% increase in capital spending, as long as other factors remain constant. This indicates that economic growth can improve a region's financial condition and encourage increased development spending.

This finding also aligns with Wagner's Law, which states that as the economy grows, society demands more public services and infrastructure. This means the government needs to spend more on capital projects. In other words, as a region's economy grows, public revenues increase, investment activity increases, and the government has more financial space to fund physical development through capital expenditures (Guritno, 2001). The results of this study are in line with what was stated Twinki & Widiyanti (2023) And Sari & Hermanto, (2018) suggests that economic growth has a unidirectional and significant relationship with capital expenditure in regencies and cities in West Java. This means that regions with better economic performance are typically able to allocate more funds to development projects.

Therefore, it can be said that economic growth plays a significant role in increasing capital spending in Central Sulawesi. The local government needs to strive to maintain economic stability and growth by supporting key sectors such as agriculture, manufacturing, and tourism. This is crucial because it helps build stronger financial resources for the region, which in turn allows for more optimal use of funds to improve people's living standards.

CONCLUSION

This study examines the determinants of capital expenditure allocation in Central Sulawesi's district and city governments from 2019 to 2023, using the Common Effects Model (CEM) with heteroscedasticity adjustment. Analytical findings indicate that all independent variables—Regional Original Revenue (PAD), Special Allocation Fund (DAK), and Economic Growth (PE)—have a unidirectional and significant impact on increasing capital expenditure in the short term. These results confirm that regional fiscal capacity and macroeconomic conditions significantly influence the increase in development spending.

Locally-generated revenue (PAD) has been shown to significantly impact capital expenditures, indicating that the stronger the government's ability to generate its own revenue, the greater the fiscal space available for public facility development. The Special Allocation Fund (DAK) also has a positive and significant impact, in line with its function as a fund specifically allocated to support the development of priority sectors. Economic growth also has a significant positive impact, indicating that increased regional economic activity can strengthen the fiscal capacity of local governments.

Based on these results, local governments in Central Sulawesi Province need to continue optimizing local revenue (PAD) sources, improving the quality of planning and absorption of

special allocation funds (DAK), and maintaining stable regional economic growth. These efforts are crucial to ensuring that capital expenditures are directed toward productive activities and provide long-term benefits to the community.

Future research should include other variables, including fiscal, institutional, and demographic variables, and try different estimation approaches to obtain more comprehensive findings. Although the three variables in this study proved significant, other factors potentially influencing capital expenditures require further exploration through further research.

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