Public Budget Quality and Rural Development Performance: The Moderating Role of Fiscal Capacity in Village and Sub-District Governments of Deli Serdang Regency

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Public budget quality and fiscal capacity are important factors in supporting effective rural development. However, large budget allocations and high budget realization rates do not necessarily translate into optimal development outcomes and tangible benefits for communities. This study aims to analyze the effect of *Public Budget Quality* on *Rural Development Performance*, examine the direct effect of *Fiscal Capacity* on rural development performance, and evaluate the moderating role of fiscal capacity in the relationship between public budget quality and rural development performance. The study is situated within the context of village and subdistrict governance in Deli Serdang Regency, North Sumatra, Indonesia, and integrates *Public Value Theory* and *Fiscal Federalism Theory* as its conceptual foundations. This research adopts an explanatory quantitative approach with a cross-sectional survey design. Primary data are intended to be collected through a five-point Likert-scale questionnaire administered to local government officials involved in development planning, budgeting, implementation, and evaluation. Data analysis is designed to employ *Structural Equation Modeling–Partial Least Squares* (SEM-PLS) using SmartPLS 4 to examine direct relationships and the interaction effect of the moderating variable. The contextual analysis highlights the importance of evaluating budget quality by considering the alignment between development priorities, resource allocation, accountability, program outputs, and public benefits. This study is expected to contribute conceptually to public-sector accounting research and provide a foundation for formulating budgeting policies that are more effective, transparent, accountable, and responsive to community needs. Empirical conclusions regarding the proposed hypotheses and the moderating effect of fiscal capacity require complete statistical estimation results.

Keywords: Public Budget Quality, Fiscal Capacity, Rural Development Performance, Public Value, Fiscal Federalism, SEM-PLS.

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1. Introduction

Public budgeting is a fundamental instrument of local government for translating development priorities into public services, infrastructure provision, and improvements in community welfare. In decentralized governance systems, the effectiveness of public expenditure depends not only on the amount of financial resources allocated but also on the quality of budget planning, the relevance of spending priorities, the timeliness of implementation, and the accountability of resource utilization. Consequently, a government may demonstrate a high budget realization rate without necessarily achieving proportionate improvements in development outcomes. This distinction highlights the importance of examining public budget quality as a substantive determinant of development performance rather than relying exclusively on financial absorption indicators. The relationship between expenditure quality and development outcomes has received empirical attention in the Indonesian context. Masduki et al. (2022), for example, examined regional expenditure quality in underdeveloped areas of Java and reported that expenditure quality was associated

with lower poverty and improvements in the Human Development Index (HDI). Their analysis emphasized the importance of spending priorities, allocation, timeliness, accountability, and effectiveness in assessing the quality of public expenditure. These findings suggest that the developmental contribution of public budgets depends on how resources are planned and utilized, rather than simply on the volume of expenditure. Similarly, Situmorang et al. (2023) investigated performance-based budgeting, regional development outcomes, environmental outcomes, and government accountability in Dairi District, Indonesia. This study provides relevant contextual evidence for examining the connections between budgetary practices, public-sector accountability, and development performance at the local-government level.

Despite these contributions, the relationship between public budget quality and development performance warrants further investigation at the village and subdistrict levels. Rural development involves interconnected needs, including basic infrastructure, access to public services, local economic opportunities, and improvements in human development. The extent to which these needs are addressed depends partly on the ability of local institutions to identify priorities, allocate resources appropriately, coordinate implementation, and evaluate program outcomes. Therefore, the quality of public budgeting should be understood as a multidimensional governance process that links public resources to development objectives and the benefits experienced by communities. Fiscal capacity represents another important dimension of local development governance. In this study, fiscal capacity refers to the financial ability of a government unit to mobilize and manage resources to support its expenditure responsibilities and development priorities. Differences in fiscal capacity may influence the availability of funding, the continuity of development programs, and the ability to respond to local needs. Research on fiscal decentralization in Indonesia indicates that fiscal arrangements and regional financial conditions are relevant to differences in local-government performance. For example, Astriana and Khoirunurrofik (2024) examined fiscal decentralization and governance performance across Indonesian districts and cities, highlighting the importance of investigating how fiscal structures relate to governance outcomes. Nevertheless, fiscal capacity should not be interpreted solely as the size of a budget or the amount of revenue available. Its developmental relevance also depends on how effectively financial resources are converted into services, outputs, and public benefits.

The theoretical foundation of this study combines Public Value Theory and Fiscal Federalism Theory. Public Value Theory emphasizes that public organizations should be evaluated according to their capacity to create outcomes that are valuable to citizens, rather than merely meeting internal administrative or financial targets (Moore, 1995). From this perspective, high-quality budgeting should connect expenditure decisions with public priorities, accountability, and meaningful development outcomes. A budget can therefore be considered developmentally effective when its implementation contributes to public benefits and responds to community needs. Fiscal Federalism Theory, in turn, provides a basis for understanding the allocation of fiscal responsibilities and resources across levels of government. Within decentralized systems, the alignment between local expenditure responsibilities and available fiscal resources is important for the provision of public goods and services. Together, these theoretical perspectives support an analytical framework in which public budget quality and fiscal capacity are examined as related but distinct dimensions of local development performance.

Although previous studies have examined expenditure quality, performance-based budgeting, fiscal decentralization, and governance performance, several issues remain insufficiently addressed in the specific context of rural development in Deli Serdang Regency. First, existing research on public expenditure quality has largely focused on regional development indicators such as poverty reduction and the HDI, leaving room to examine rural development performance as a broader outcome within village and subdistrict

governance. Second, fiscal capacity is commonly examined as a financial or explanatory factor, whereas its potential role in moderating the relationship between public budget quality and development performance requires further empirical assessment. Third, there is a need to integrate Public Value Theory and Fiscal Federalism Theory into a single analytical framework that considers both the quality of budgetary processes and the fiscal conditions under which local development programs are implemented. These gaps provide the rationale for examining the proposed relationships in the Deli Serdang context.

This study addresses these issues by examining the relationship between Public Budget Quality (PBQ) and Rural Development Performance (RDP), assessing the direct relationship between Fiscal Capacity (FC) and RDP, and testing whether FC moderates the relationship between PBQ and RDP. The study proposes three hypotheses: (1) Public Budget Quality is positively associated with Rural Development Performance; (2) Fiscal Capacity is positively associated with Rural Development Performance; and (3) Fiscal Capacity strengthens the positive relationship between Public Budget Quality and Rural Development Performance. The proposed relationships will be examined using a quantitative, cross-sectional survey of local-government officials involved in development planning, budgeting, implementation, and evaluation, with Structural Equation Modeling–Partial Least Squares (SEM-PLS) planned for the analysis.

The study is expected to contribute to public-sector and regional-development literature in three ways. Theoretically, it brings together Public Value Theory and Fiscal Federalism Theory to explain how budget quality and fiscal conditions may relate to rural development performance. Empirically, it distinguishes the direct relationship of fiscal capacity from its potential moderating role in the public budget quality–development performance relationship. Contextually, it focuses on village and subdistrict governance in Deli Serdang Regency, North Sumatra, Indonesia. The findings may inform local policymakers seeking to improve budget prioritization, resource allocation, accountability, and the alignment of public expenditure with community development needs. Because the proposed design is cross-sectional, the interpretation of the results will focus on the estimated relationships among the study constructs rather than asserting definitive causal effects.

2. Literature Review

Public Value Theory and Public Budget Quality

Public Value Theory provides a conceptual foundation for evaluating government performance beyond administrative compliance and financial expenditure. Moore (1995) argues that public organizations should create value for citizens through the effective use of public resources, legitimate government decisions, and the operational capacity to implement policies. From this perspective, government performance should be assessed not only by the amount of money spent or the completion of administrative procedures, but also by the extent to which public activities address community needs and generate meaningful benefits. In local governance, public budgets translate community priorities into development programs. Public Budget Quality (PBQ) refers to the extent to which budgeting and expenditure management align with development priorities, allocate resources appropriately, ensure timely implementation, and maintain transparency, accountability, and effectiveness. These dimensions reflect the quality of financial decision-making rather than the volume of expenditure or the budget absorption rate alone. This perspective is particularly relevant to rural development, where communities may have diverse social, economic, infrastructure, and public-service needs.

Previous studies support the importance of expenditure quality in development. Masduki et al. (2022) examined regional spending quality in relation to poverty and the Human Development Index in underdeveloped areas of Java, Indonesia, highlighting the relevance of expenditure priorities, allocation,

timeliness, accountability, and effectiveness. Similarly, Masduki et al. (2021) emphasized the relationship between spending quality and development performance in less-developed regions. These studies provide a basis for examining public budget quality as a multidimensional construct associated with development outcomes. Building on Public Value Theory and this empirical literature, the present study conceptualizes PBQ through five dimensions. First, expenditure priorities concern the alignment of budget decisions with identified community needs and development objectives. Second, expenditure allocation refers to the appropriateness of resource distribution relative to program objectives, beneficiary needs, and implementation costs. Third, implementation timeliness concerns whether budget execution and development activities proceed according to realistic schedules. Fourth, accountability and transparency involve the availability of information, the justification of budget decisions, and the ability to evaluate resource utilization against established objectives. Fifth, effectiveness concerns the extent to which public expenditure supports the achievement of intended program objectives.

An important implication of Public Value Theory is the need to distinguish financial inputs and administrative processes from development outcomes. Budget allocations represent resources, while budget execution reflects part of the implementation process; neither independently demonstrates that community welfare has improved. Accordingly, the measurement of PBQ must remain conceptually distinct from Rural Development Performance (RDP). The alignment of budget allocations with community needs, for example, reflects budget quality, whereas improvements in rural infrastructure, public-service access, or other development outcomes reflect development performance.

Therefore, this study expects that higher public budget quality will be positively associated with rural development performance. Public Value Theory provides the conceptual rationale for this relationship by emphasizing that public resources should be managed in ways that respond to community needs and contribute to meaningful development benefits. Maintaining a clear distinction between PBQ and RDP is also essential for establishing construct validity in the proposed empirical model.

Fiscal Federalism Theory and Fiscal Capacity

Fiscal Federalism Theory explains the allocation of fiscal responsibilities and resources across levels of government. Oates (1972, 1999) emphasizes that decentralized decision-making can improve public service responsiveness when local governments understand community needs and possess adequate resources to fulfill their responsibilities. However, decentralization alone does not guarantee effective development outcomes, as performance also depends on fiscal resources, administrative capacity, and the quality of financial management.

Fiscal Capacity (FC) refers to the ability of a government unit to mobilize, allocate, and sustain financial resources to meet public responsibilities and development priorities. In rural development, adequate fiscal capacity enables local governments to finance infrastructure, maintain public services, and implement development programs. Conversely, limited fiscal capacity may constrain program implementation, delay activities, and reduce the scope of development initiatives.

Fiscal capacity may therefore influence Rural Development Performance (RDP) directly and condition the relationship between Public Budget Quality (PBQ) and RDP. Even well-planned budgets may not produce optimal outcomes when financial resources are insufficient. Accordingly, this study examines FC as both an independent variable and a moderating variable. Because FC is assessed through survey-based perceptions, the findings should be distinguished from objective fiscal indicators, such as local revenue and fiscal-space ratios.

The Relationship Between Public Budget Quality and Rural Development Performance

Theoretically, Public Budget Quality is expected to be positively associated with Rural Development Performance because high-quality budgeting can improve the alignment between public resources and community needs. Budgets that reflect local priorities, allocate resources appropriately, support timely implementation, and establish clear accountability mechanisms may provide a stronger foundation for delivering development programs.

Public Value Theory supports this expectation by emphasizing that public-sector activities should create meaningful benefits for citizens (Moore, 1995). From this perspective, budgeting is not simply an administrative process; it is a mechanism for translating public priorities into government action. When expenditure decisions are relevant to local problems and implementation is subject to appropriate accountability, the likelihood that public resources will contribute to intended development objectives may increase.

Empirical support for this relationship can be drawn from Masduki et al. (2022), who found that regional spending quality was relevant to poverty and human development outcomes in underdeveloped areas of Java. Similarly, Situmorang et al. (2023) reported a positive relationship between performance-based budgeting and regional development through government accountability in Dairi District.

Nevertheless, the relationship may vary according to local institutional and fiscal conditions. Well-designed budgets may not produce the intended results if implementation capacity is weak, financial resources are inadequate, or external conditions disrupt development programs. Accordingly, the relationship between PBQ and RDP should be tested empirically rather than assumed to be uniformly strong across all local government units.

Based on this theoretical reasoning and the available empirical evidence, the study proposes the following hypothesis:
H1: Public Budget Quality is positively associated with Rural Development Performance.

The Relationship Between Fiscal Capacity and Rural Development Performance

Fiscal capacity may be positively associated with Rural Development Performance because financial resources enable local authorities to finance public services, implement infrastructure projects, and sustain development programs. Adequate resources may also provide greater flexibility in responding to emerging community needs and addressing deficiencies in existing services. Fiscal Federalism Theory provides a theoretical explanation for this relationship by emphasizing the importance of aligning fiscal resources with public expenditure responsibilities (Oates, 1972, 1999). Local governments require appropriate financial arrangements to fulfill their assigned functions. Where fiscal capacity is limited relative to expenditure responsibilities, the implementation of development priorities may be constrained.

In the Indonesian context, Masduki et al. (2021, 2022) demonstrate the relevance of examining fiscal and expenditure conditions in relation to development performance. Their work also suggests that the availability of resources should be considered alongside the quality and direction of public spending.

However, fiscal capacity alone does not guarantee better development outcomes. Additional financial resources may produce limited benefits when expenditure priorities are poorly selected, accountability is weak, or implementation is ineffective. Fiscal capacity should therefore be considered an enabling condition rather than a sufficient explanation for development performance.

In this study, the proposed direct relationship between FC and RDP reflects the expectation that greater perceived capacity to finance development responsibilities will be associated with stronger rural development performance. The strength of this relationship remains an empirical question.
Accordingly, the following hypothesis is proposed:
H2: Fiscal Capacity is positively associated with Rural Development Performance.

The Moderating Role of Fiscal Capacity

The direct relationship between Public Budget Quality and Rural Development Performance may depend on the fiscal conditions under which local development programs are implemented. A budget may be well planned and aligned with community needs, but its intended benefits may not materialize if the government unit lacks sufficient financial resources to implement the planned activities. Conversely, adequate fiscal capacity may enable a local government to translate high-quality budget decisions into more complete and sustainable development programs.

This argument is consistent with the combined application of Public Value Theory and Fiscal Federalism Theory. Public Value Theory emphasizes the creation of benefits through the effective use of public resources, while Fiscal Federalism Theory highlights the importance of fiscal arrangements and the availability of resources for fulfilling public responsibilities (Moore, 1995; Oates, 1999). Together, these perspectives suggest that the relationship between budget quality and development performance may be contingent on fiscal capacity.

The moderating role of FC can be understood in terms of resource availability and implementation feasibility. When fiscal capacity is relatively strong, a high-quality budget may be more readily translated into funded activities, completed outputs, and sustained services. When fiscal capacity is limited, the same quality of planning may yield smaller benefits because programs may be delayed, scaled down, or constrained by competing expenditure obligations.

This proposition differs from the direct-effect hypothesis. H2 concerns whether fiscal capacity is associated with development performance in its own right. The moderation hypothesis, by contrast, concerns whether the strength of the relationship between PBQ and RDP changes across different levels of FC. Although this mechanism is theoretically plausible, it should not be treated as an established empirical finding. The moderating effect must be assessed through the interaction between PBQ and FC in the statistical model. A positive and statistically significant interaction coefficient would provide evidence consistent with the proposed strengthening effect, subject to the specification and measurement quality of the model.
Accordingly, the study proposes the following hypothesis:
H3: Fiscal Capacity positively moderates the relationship between Public Budget Quality and Rural Development Performance, such that the relationship becomes stronger as Fiscal Capacity increases.

Research Gap and Conceptual Synthesis

The reviewed literature establishes a theoretical and empirical basis for examining the relationship between public budgeting and development performance. Public Value Theory emphasizes the creation of benefits for citizens through legitimate and effective government action (Moore, 1995), while Fiscal Federalism Theory explains the relevance of fiscal arrangements and resource allocation across levels of government (Oates, 1972, 1999). Empirical research in Indonesia has also linked regional spending quality and performance-based budgeting with development outcomes (Masduki et al., 2021, 2022; Situmorang et al., 2023).

However, three issues motivate the present study.

First, there is a contextual gap concerning the relationship between public budget quality and rural development performance in village and subdistrict governance in Deli Serdang Regency. Findings from other regions provide relevant evidence but cannot automatically be generalized to this setting.

Second, there is a conceptual gap concerning the role of fiscal capacity. Fiscal resources may influence development performance directly, but they may also condition the extent to which high-quality budgeting is translated into development outcomes. Examining both roles within a single model provides a more differentiated assessment of fiscal capacity.

Third, there is an integrative gap in applying Public Value Theory and Fiscal Federalism Theory together to explain the proposed relationships. The former provides a citizen-oriented perspective on the value generated by government activities, while the latter explains the fiscal conditions that shape local governments' ability to carry out their responsibilities.

To address these issues, the present study proposes a model in which Public Budget Quality is associated with Rural Development Performance, Fiscal Capacity has a direct relationship with Rural Development Performance, and Fiscal Capacity moderates the relationship between Public Budget Quality and Rural Development Performance. This framework is designed to assess both the relevance of budgetary quality and the extent to which fiscal conditions may influence its relationship with rural development outcomes.
The model therefore provides the conceptual basis for the following hypotheses:
H1: Public Budget Quality is positively associated with Rural Development Performance.
H2: Fiscal Capacity is positively associated with Rural Development Performance.
H3: Fiscal Capacity positively moderates the relationship between Public Budget Quality and Rural Development Performance.

These hypotheses will be examined using the proposed quantitative survey design and SEM-PLS analysis. The empirical conclusions will depend on the quality of the measurements, the adequacy of the sample, and the statistical results obtained from the estimated model.

3. Method

This study employs an explanatory quantitative approach with a cross-sectional survey design to examine the relationships between Public Budget Quality (PBQ), Fiscal Capacity (FC), and Rural Development Performance (RDP) in Deli Serdang Regency, Indonesia. Data are collected using a five-point Likert-scale questionnaire distributed to local government officials involved in planning, budgeting, implementation, and evaluation. PBQ is measured through expenditure priorities, allocation, timeliness, accountability and transparency, and effectiveness. FC represents the government’s perceived ability to mobilize and manage financial resources, while RDP reflects development outcomes, including rural infrastructure and public-service improvements. Data are analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4. The analysis evaluates measurement reliability and validity, structural relationships, and the moderating effect of FC through the interaction term (PBQ \times FC). The study tests three hypotheses: the effect of PBQ on RDP, the effect of FC on RDP, and the moderating effect of FC on the PBQ–RDP relationship. Conclusions are drawn from the actual path coefficients and bootstrapping results.

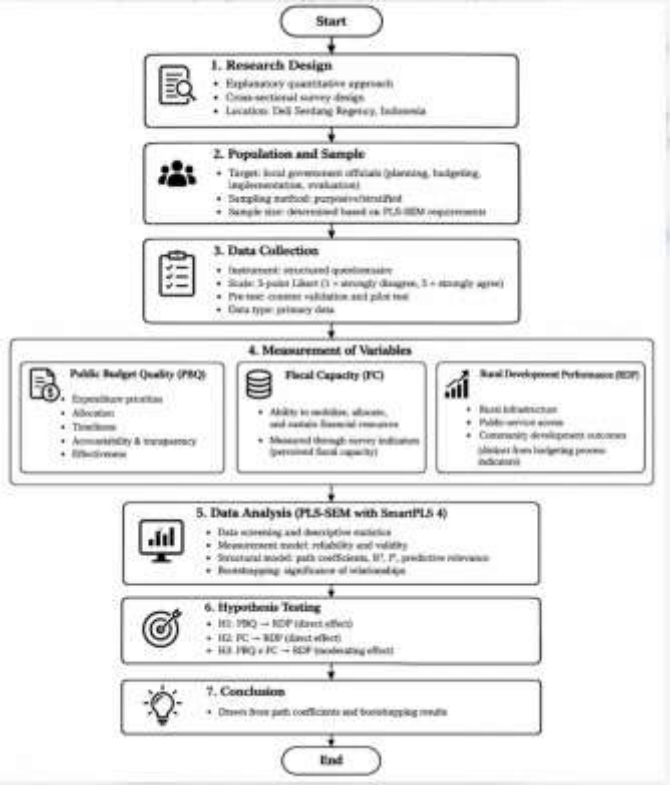


Figure 1. Research Methodology

4. Research Results and Discussion

Overview of Fiscal Capacity and Budget Realization, Deli Serdang Regency in 2025

Deli Serdang Regency has a revenue budget of IDR 5.01 trillion in 2025, with revenue realization reaching IDR 4.83 trillion, or 96.5% of the budget. Meanwhile, spending realization reached IDR 4.26 trillion, or 85.1% of the budget stated in the report. These data indicate a discrepancy between revenue realization and spending, with spending realization being 11.4 percentage points lower than revenue realization. This difference provides important context for discussing the quality of public budgets. High revenue realization does not necessarily indicate that spending has generated optimal development benefits. Such an assessment requires additional information regarding the composition of spending, output achievement, development outcomes, and the suitability of budget realization to community needs.

However, this data is the Deli Serdang Regency Regional Budget (APBD), not the Denai Kuala Village Budget (APBDes) realization report. Therefore, this data is only used to explain the regional fiscal context and cannot be used as direct evidence regarding the budget performance of the Denai Kuala Village Government. The 2025 Denai Kuala Village Fund Allocation based on Minister of Finance Regulation Number 108 of 2024, the 2025 Village Fund allocation for Denai Kuala Village, Pantai Labu District, Deli Serdang Regency, was recorded at IDR 1,036,733,000. This amount provides an overview of one source of funding for village development. However, the Village Fund is not the entire APBDes because the village revenue budget can include other revenue sources according to applicable regulations. This allocation data also does not show how much funds were actually realized, how the expenditure was distributed, or what development results were achieved.

Thus, findings based on the available data can only identify the amount of Village Fund allocation, but cannot yet conclude whether the allocation has been used effectively, efficiently, and in accordance with the priority needs of the community.

Results of Analysis on the Quality of Performance-Based Budgeting

Based on a review of the final report of the community service activities, the main focus of the assistance was strengthening understanding of performance-based budgeting, determining output and outcome indicators, establishing priorities based on fiscal capacity, and evaluating the benefits of village spending. The report also placed the agriculture, fisheries, trade, and micro-enterprise sectors within the context of the local economy.

From this review, there are three substantive issues that are relevant to analysis.

First, measurable relationships between budget allocations and development outcomes are crucial for assessing budget quality. Information on budget amounts alone is insufficient to demonstrate whether village programs have produced the changes communities need. Performance analysis requires linking spending allocations to program outputs and resulting benefits.

Second, aligning spending priorities with fiscal capacity is a critical issue in village financial management. Fiscal capacity limits the village government's ability to finance multiple needs simultaneously. Therefore, budget quality is not solely assessed by the amount of funds allocated, but also by the alignment of spending priorities with community needs and available resources.

Third, the measurement of the benefits of spending cannot be quantitatively verified through available documents. The final activity report does not present detailed data on the Village Budget (APBDes), spending realization per program, development indicators, or a comparison of results before and after mentoring. Therefore, these three issues represent the results of a substantive review of the documents and activity focus, not statistical evidence that village budgeting performance has improved.

Evaluation of the Results of Mentoring Activities

The final report documents the implementation of mentoring activities on June 25, 2026, in Denai Kuala/Kwala Village, Pantai Labu District, Deli Serdang Regency. The activities focused on improving understanding of performance-based budgeting and strengthening the quality of public budgets in supporting village development. Although the activities were implemented, the available documentation does not include pre- and post-activity test scores, a measurable number of participants, instrument assessment results, or evidence of follow-up implementation of the material in the village budget document. Therefore, the increase in participant knowledge and changes in budgeting quality cannot yet be stated as measurable outcomes. This finding indicates a limitation of the activity evaluation: evidence of activity implementation is available, but quantitative evidence regarding changes in participant capacity and their impact on budget management is not yet available. Distinguishing between activity implementation and activity impact is necessary to ensure that the article's conclusions remain consistent with empirical evidence.

The review results indicate that evaluating village budget quality requires linking three elements: fiscal capacity, spending realization, and development outcomes. Budget allocation or realization data only describes the financial aspect, while development effectiveness requires verifiable outcome indicators.
In the context of Denai Kuala Village, the implication of this analysis is that assessing the success of mentoring cannot stop at the implementation of outreach or the availability of Village Fund allocations. Assessments need to be based on evidence of the village government's ability to link programs to performance indicators, determine spending priorities, and evaluate the budget's benefits to the community. Academically, this activity's contribution lies in identifying the need to strengthen the link between budget planning and measuring village development outcomes. However, claims regarding increased efficiency, effectiveness, accountability, or community welfare still require more comprehensive supporting data.

Discussion

The research discussion focuses on the relationship between Public Budget Quality (PBQ), Fiscal Capacity (FC), and Regional Development Performance (RDP), as well as the role of fiscal capacity in moderating the relationship between public budget quality and regional development performance. This framework is used to explain the relationship between budget management quality, government financing capacity, and the achievement of development goals.

The quality of a public budget relates to the government's ability to consistently link public needs, development priorities, resource allocation, and performance targets. A quality budget is not solely assessed by the level of fund absorption, but also by the link between budget use and the achievement of development outputs and outcomes. This perspective positions the budget as a policy instrument for generating public benefits, not simply an administrative and financial document.

Within the framework of this research, the relationship between PBQ and RDP demonstrates the importance of budgeting process quality in supporting regional development. If the estimated coefficient shows a positive and significant effect, this finding provides empirical support that better budget quality is associated with higher development performance. However, the magnitude of the coefficient and the effect size still need to be considered to assess the substantive significance of this relationship.

If the relationship between PBQ and RDP is not significant, this result indicates that the study has not obtained sufficient statistical evidence to support the direct relationship as formulated in H1. This condition can be the basis for examining the quality of measurement, variations in regional characteristics, consistency of program implementation, and the possibility of a time lag between budgeting improvements and the achievement of development outcomes. This explanation is an interpretive possibility that needs further testing, not a cause that can be stated as proven.

Fiscal capacity reflects the government's ability to provide financial resources to finance development priorities and public services. This capacity determines the funding available to implement programs, meet community needs, and maintain the sustainability of services. However, the availability of funds does not automatically guarantee optimal development. Development outcomes are also related to the quality of planning, governance, program implementation, and oversight of budget use.

If the test results show a positive and significant relationship between FC and RDP, these findings support the argument that greater financing capacity is associated with better development performance. The substantive implication is that funding capacity should be directed toward priority programs with measurable targets and performance indicators.

Conversely, if the relationship between FC and RDP is insignificant, the results indicate that the direct effect of fiscal capacity has not received sufficient empirical support in the research model. One possible explanation is that funding capacity needs to be accompanied by effective governance and program implementation to generate development benefits. Interpretation must also take into account how FC is measured. Objective fiscal indicators, such as revenue and fiscal space, have different characteristics than measures based on respondents' perceptions. These differences need to be considered to ensure that conclusions align with the constructs actually measured.

Fiscal capacity has the potential to influence the government's ability to translate quality budget planning into development outcomes. Budget quality provides direction for setting priorities and using resources, while fiscal capacity determines the financing space to implement those priorities. Therefore, the relationship between budget quality and development performance can differ at different levels of fiscal capacity.

If the PBQ × FC interaction coefficient is positive and significant, the result indicates that the relationship between PBQ and RDP tends to be stronger at higher FC levels. This interpretation needs to be strengthened with simple slope analysis or interaction visualization to substantively explain differences in the relationship at different levels of fiscal capacity.

If the interaction coefficient is insignificant, the study has not obtained sufficient evidence that fiscal capacity moderates the relationship between PBQ and RDP. This result does not imply that fiscal capacity is unimportant for development, but rather indicates that its moderating role has not been statistically identified in the tested model. If the interaction coefficient is negative and significant, the result indicates a moderation pattern that contradicts the expected positive relationship. Interpretation should be based on the data distribution, the characteristics of the unit of analysis, and the pattern of the relationship found. The possibility of diminishing returns from fiscal capacity can only be proposed if supported by empirical results and relevant arguments.

5. Conclusion

This study provides a conceptual framework for examining the relationship between Public Budget Quality (PBQ), Fiscal Capacity (FC), and Rural Development Performance (RDP) in Deli Serdang Regency, Indonesia. It emphasizes that effective rural development depends not only on the amount of public expenditure but also on the alignment of budget priorities, appropriate resource allocation, timely implementation, accountability, and expenditure effectiveness. Fiscal capacity is considered both a direct determinant of rural development performance and a moderating factor in the relationship between budget quality and development outcomes. The proposed PLS-SEM analysis using SmartPLS 4 is intended to assess these relationships and determine whether fiscal capacity strengthens the contribution of public budget quality to rural development performance. The study highlights the importance of integrating budget quality and fiscal capacity into local development planning and financial management. However, conclusions regarding the proposed hypotheses and their empirical significance must await the analysis of actual survey data. Future research should combine perceptual survey measures with objective fiscal indicators and documented development outcomes to provide a more comprehensive assessment of local government performance.

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