

## **ABSTRACT**

*This research aims to measure the local government spending efficiency of health and education sector in Indonesia at stage-1, while at stage-2 it aims to empirically analyze the effect of fiscal decentralization on local government spending efficiency of health and education sector in Indonesia.. The Data Envelopment Analysis (DEA) method is used in stage-1 analysis, then stage-2 analysis is carried out using the panel data regression method with the Fixed Effects model. To measure the efficiency of health sector, this study used government spending of health function as input and Life Expectancy Rate as output. Whereas in the education sector, the input used is government spending of education function with the Average Years of Schooling and Expected Years of Schooling as outputs. Meanwhile, fiscal decentralization is measured by the percentage of Balancing Funds and Locally-Generated Revenue (PAD) to total regional income. This study also includes good governance and accountability, which is measured by The Audit Board of the Republic of Indonesia (BPK) Opinion on Financial Report of Regional Government (LKPD) and modeled in the form of interactions with the Balancing Fund and PAD variables. Using panel data from 508 regencies/cities in Indonesia in the time period from 2017-2021, stage-1 analysis of this research found that the efficiency of local government spending in the health and education sectors in Indonesia has not yet reached an efficient condition. Meanwhile, the stage-2 analysis in this research concludes that fiscal decentralization has a significant positive impact on local government spending efficiency of health and education sectors in Indonesia if it is implemented in a good governance and accountability.*

*Keywords: Fiscal Decentralization, Efficiency, Data Envelopment Analysis, Good Governance and Accountability*

JEL: H51, H52, H72, H75