

## **ABSTRACT**

*Fiscal decentralization is believed to make local governments more responsive to local preferences. Local governments are considered more efficient in providing public services because they have better information about local tastes and preferences compared to the central government. Thus, this increases the performance of public sectors. This study empirically investigates the relationship between fiscal decentralization and the performance of the public sector in health and education using panel data from 428 regencies/cities in Indonesia during the period from 2011 to 2015. This study measures fiscal decentralization by the percentage of locally generated revenue (PAD) to the total revenue and the percentage of general allocation funds (dau) to the total revenue. This study uses life expectancy and the pure participation rate in junior high school (SMP) to measure health performance and education performance, respectively. The estimation results using the fixed-effects model show that fiscal decentralization, as measured by the percentage of locally generated revenue to the total revenue, is positively correlated with the performance of the public sector in health and education. Conversely, the indicator of fiscal decentralization measured by the percentage of general allocation funds to the total revenue is negatively correlated with the performance of the public sector in health and education.*

*Keyword: Fiscal Decentralization, Public Sector Performance, Life Expectancy, School Enrollment Rates*