

## **ABSTRACT**

*The implementation of fiscal decentralization has been lasting for approximately 9 years since 2001. The fiscal decentralization has some negative impacts, some of which are firstly; local government issues a local regulation on regional revenue contradicting with the higher legislation rules, secondly; corruption, collusion, and nepotism tend to get worse and spread in almost territory of Indonesia, thirdly; the misuse of the local finance management is getting higher and higher, and fourthly; the emergence of corruption case in the local finance management conducted by regional functionaries. In fact, fiscal decentralization is designed by central government to increase performance and efficiency of local government expenditure. This will accelerate the achievement of the development targets.*

*The main objective of the research is to analyze the efficiency of expenditures among local governments in Central Java Province on 2004-2008. The procedure of analysis are: (1) firstly, determined the input which was percentage of local governments to Gross Regional Domestic Product (GRDP), (2) secondly, determined the output with Public Sector Performance (PSP) approach. Free Disposal Hull (FDH) method was employed to determine the efficiency of expenditures among local governments. From production possibility frontier then score of efficiency was estimated and its ranked for each local governments were estimated.*

*This research showed that local government with higher percentage of expenditures to GRDP was able to operate within possibility frontier of production and not necessarily had a high efficiency score. In addition, local government yield output which tends to decrease, while the efficiency of expenditure tends to increase.*

*Key words: Efficiency, Expenditures, Fiscal Decentralization, Free Disposal Hull, Public Sector Performance, Central Java.*