Impact of Local Governance Quality on Economic Development

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ABSTRACT

Historically, good governance has been seen as a significant factor, or building block, of a longer-term and sustainable economy; however, the effects of good governance on the experiences of ordinary citizens living in secondary cities in India remain largely unexplored. This research examines how individuals who have benefited from urban development programmes in Mangalore (Mangaluru), Dakshina Kannada District, Karnataka, perceive their local government, as well as whether those perceptions can be linked to measurable improvements in their economic well-being. Through a stratified random sample of 400 beneficiaries of the Mangaluru Smart City Mission, PMAY-U, DAY-NULM, and related projects (2024-2025), the WGI framework developed by the World Bank was used to assess and adapt six Worldwide Governance Indicators (WGI's) to the local context of Mangaluru. Additionally, a composite governance index was established, as well as an economic development index (EDI) including indicators of income growth, job stability, asset accumulation, and access to credit.A mixed-methods explanatory sequential design was employed. Primary data came from a bilingual, pre-tested questionnaire administered in person and through mobile-assisted interviewing between January and March 2025. Secondary data were sourced from the (Karnataka, 2026), Mangalore City Corporation reports, and district statistical handbooks. Reliability was robust (Cronbach's $\alpha > 0.82$), and validity was established through expert review and exploratory factor analysis (KMO = 0.89).

Responders bore very positive impressions of all three components of local governmental processes ([mean composite rating = 3.68/5). Most highly regarded by the respondents were the constructs: effectiveness of government and control of corruption. Ordered multiple linear regression analysis, after controlling for various socio-demographic variables, shows an increase of one unit in the composite measure of local governance is correlated to an increase of 0.42 units on the Economic Development Index (EDI) ($\beta = 0.42$, $p < .001$) and accounts for 58% of the variance. Effectiveness of government ($\beta = 0.221$) and control of corruption ($\beta = 0.236$) are both the two strongest predictors of the EDI score. Additionally, a significant positive bivariate correlation exists between the all adaptations of the World Governance Indicator Constructs (correlation coefficient range = r = 0.41-0.68).

The study results support the theoretical perspectives (North 1990; Acemoglu & Robinson 2012) of inclusive institutions being important, and similarly extend the Indian literature base (Vashistha & Bishnoi, 2025; Mallick 2023) to secondary urban cities. These findings are also consistent with the current evaluations of the Smart Cities Mission which suggest a need for implementation focused on the citizen beyond infrastructure (Government of India, 2025). In addition, it provides policymakers recommendations that include the use of digital transparency tools, conducting annual social audits, building capacity to urban local authorities and implementing performance-based funding through Smart Cities Mission 2.0. Although the limitations of cross-sectional data and self-reporting exist, the findings offer concrete evidence for improving urban governance in Karnataka's tier-II cities.

Keywords: Local governance, Economic development, Beneficiary perceptions, Smart Cities Mission, Multiple Regression, Urban Local Bodies, Good Governance Indicators

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INTRODUCTION

Governance is an important concept in development economics. Kaufmann et al. (2010) provided one of the most well-known frameworks of governance based on six dimensions of governance: Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. Hayek argued that over several decades of performing cross-country analysis that there was a statistically significant relationship between stronger institutions and levels of investment, better service delivery and sustained economic growth. India's 74th Constitutional Amendment in 1992 was supposed to decentralize power to urban local governments, but significant implementation gaps remain, particularly in non-metropolitan areas.

Mangalore, a thriving Port City located along the coast of Karnataka and the administrative headquarters of Dakshina Kannada District, is both full of promise and a source of pressure on local government. Dakshina Kannada, with its port-related trade activities, its outstanding higher education institutions, and its developing information technology (IT) and renewable energy clusters (Karnataka, 2026), consistently ranks among India's top 10 districts in terms of per capita Gross Domestic Product. However, the rapid pace of urbanization has overwhelmed municipal services, housing, and livelihoods in the Mangalore area, leading to the question of whether citizens believe that the local governments provide them with inclusive economic benefits.

Research Gap

Research is lacking on the relationship between good governance and economic growth, especially at the micro level, for beneficiaries of schemes in Mangalore, India although at the macro level, there seems to be a positive correlation between good governance and economic growth in India. Most studies have been conducted at the state or country level (Karnataka, 2006; Singh, 2026; Vashistha et al.; Ananthpur & Kripa, 2003) for rural areas within Karnataka or for Bengaluru metropolitan city. There are virtually no studies of beneficiaries from programs targeting urban areas in Karnataka, so it is too early to determine whether the Smart Cities Mission's desired outcomes can lead to economic growth between good governance and economic growth in states using decentralized, transparent governance structures.

Objectives

1. Determine how beneficiaries view the quality of local governance based on the six WGI indicators as applied in a Mangalore context.
2. Measure differences in values for economic well-being indicators associated with the implementation of the scheme.
3. Analyse the correlation between perceptions of local governance and economic development by means of robust regression analysis.
4. Produce recommendations for strengthening urban local governance in secondary cities throughout Karnataka for future implementation.

REVIEW OF LITERATURE

The theoretical basis is laid by institutional economics. As suggested by (North, 1990), long-term economic development will occur in "inclusive" institutions that protect property rights, enforce contracts and limit elite capture. This conclusion was supported by (Acemoğlu & Robinson, 2012), when they contrasted "extractive" and "inclusive" political economic systems. The empirical evidence obtained from the World Bank's Worldwide Governance Indicators project supports the above theories: an increase of one standard deviation in governance relates to a rise in per capita income growth rate of from 1.5% to 2% annually (Kaufmann et al., 2010). The World Bank has made recent improvements to the WGI's methodological approach in the processing of perceptual data sources while still allowing for cross-country comparisons (World Bank, 2025).

The maturity of the empirical research within India has seen a number of important studies. For instance, Vashistha and Bishnoi (2025) found evidence of bidirectional causality between good governance, economic growth, and human development using frequency domain causality analysis on national-level time series data.

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Mallick (2023) found that trust in governance plays a significant role in explaining differences in economic performance among the states through analysis of state level public confidence indexes. Singh (2024) provides additional evidence that quality of governance is not limited to individual states, but that it spills over into adjacent states through spatial econometric studies.

Decentralization's impact has varied widely in Karnataka according to Karnataka-specific literature. Early gram panchayat studies showed improvements in service delivery due to local accountability mechanisms (Ananthpur & Kripa, 2006; Inbanathan, 2009), but urban improvements have received less focus. The 2026 Karnataka report points to digital governance reforms and participatory budgeting as facilitators of inclusion, but recognizes that validation is generally limited at the beneficiary level. Dakshina Kannada and other coastal districts are examples of new “private-sector-led” growth through community banking, remittances, and a high percentage of educated women, but even in these cases, quality public governance has been a constraint in realizing broad-based gains from this growth potential (Rao, 2025).

There is nuance to Smart Cities Missions evaluation. There has been good progress on infrastructure investment in some cities, but citizen centric governance and equitable benefit distribution is lagging (Government of India, 2025); (Taraporevala, 2017). In other Tier-II cities, studies have shown that citizens’ perceptions of corruption control and speed of service delivery as well as hardware are the two strongest predictors of satisfaction (Sukarno & Nurmandi, 2023). In conclusion, literature has reached a consensus on two main points:

1. Governance plays a role in economic outcomes;

2. There is a need for context-specific micro-level evidence to expand beyond national aggregates.

The present study aims to fill this gap by focusing on scheme beneficiaries in Mangalore.

RESEARCH METHODOLOGY

Research Design:

A mixed-method explanatory sequential design was utilized, in which quantitative analysis was the dominant approach for collecting data and interpreting results; qualitative findings were used for interpreting and triangulating quantitative data.

Study Location:

Mangalore City Corporation (MCC) limits in Dakshina Kannada district, State of Karnataka

Population and Sampling Method:

The target population consists of approximately 28,000 registered beneficiary households enrolled in Mangaluru Smart City Mission, PMAY-U, DAY-NULM and related livelihood programs (MCC, 2024) . A representative sample was determined using Krejcie and Morgan's (1970) guidelines for sample size calculation at 95% confidence level and 5% margin of error yielding N=400. Stratified random sampling was utilized to randomly select respondents proportional to the total number of registered beneficiaries in the four MCC zones (North, South, East and West) followed by systematic random selection of respondents from the official scheme lists.

Data Collection

A 42-item structured, bilingual (English and Kannada) questionnaire was developed based upon 24 Likert-type items (4 items per Worldwide Governance Index dimension) to measure respondents' perceptions of governance. The Economic Development Index included 10 items regarding income increases, employment stability, asset ownership and access to credit. Three faculty and two MCC staff members verified the face and content validity of the instrument. Pilot testing (N=40) produced an average coefficient of reliability (Cronbach's $\alpha = .87$).

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Data Sources and Ethical Considerations

Primary data were collected January–March 2025 via in-person and mobile-assisted personal interviewing. Secondary data were drawn from the **(Karnataka, 2026),** MCC annual reports, and the District Statistical Handbook. Informed consent, anonymity, and institutional ethical clearance were secured.

Data Analysis

IBM SPSS Statistics 28.0 was used. Descriptive statistics, Pearson correlations, exploratory factor analysis (varimax rotation, KMO = 0.89, Bartlett's $p < 0.001$), and ordinary least squares (OLS) multiple linear regression were performed. Model diagnostics (VIF < 5, Durbin–Watson ≈ 1.98, Kolmogorov–Smirnov normality test) confirmed assumptions. Significance was set at $p < 0.05$.

Hypotheses were framed as:

H1: Each governance dimension is positively correlated with EDI.

H2: The composite governance index significantly predicts EDI after controlling for socio-demographic factors.

Results and Interpretation

Demographic Profile

The sample comprised 58% male and 42% female participants; the mean age was 38.4 years (SD = 9.2). Educational attainment was relatively high: 62% had completed secondary education or above. Pre-scheme annual household income was below ₹3 lakh for 71% of respondents, indicating a predominantly low-income beneficiary base.

Table 1: Descriptive Statistics of Governance and Economic Variables (n = 400)

Variable	Mean	SD	Min	Max
Voice & Accountability	3.45	0.82	1.0	5.0
Government Effectiveness	3.92	0.71	1.5	5.0
Regulatory Quality	3.61	0.79	1.0	5.0
Rule of Law	3.78	0.68	2.0	5.0
Control of Corruption	3.55	0.85	1.0	5.0
Political Stability	3.81	0.74	1.5	5.0
Composite Governance Index (CGI)	3.68	0.62	2.1	4.9
Economic Development Index (EDI)	3.42	0.91	1.2	4.8

Note: All indices scaled 1–5; higher scores indicate better perceived quality/outcomes.

Correlation Analysis All six governance dimensions correlated positively and significantly with EDI (with r values ranging from 0.41 to 0.68, $p < 0.01$). Government effectiveness showed the strongest bivariate association ($r = 0.68$).

Regression Analysis

Table 2: Multiple Linear Regression – Predictors of Economic Development Index

Predictor	B	SE	β	t	p	VIF
(Constant)	0.412	0.218	–	1.89	0.060	–
Voice & Accountability	0.089	0.052	0.072	1.71	0.088	2.14
Government Effectiveness	0.312	0.061	0.221	5.11	<0.001	2.87
Regulatory Quality	0.156	0.049	0.123	3.18	0.002	2.35
Rule of Law	0.214	0.055	0.146	3.89	<0.001	2.61

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Control of Corruption	0.278	0.058	0.236	4.79	<0.001	2.93
Political Stability	0.104	0.047	0.077	2.21	0.028	1.98
Controls (age, gender, education, baseline income)	Included	–	–	–	–	<3.0

$R^2 = 0.582$; Adjusted $R^2 = 0.571$; $F = 48.73$, $p < 0.001$

The model is highly significant and explains 58.2% of variance in EDI. Control of corruption and government effectiveness emerge as the dominant predictors, suggesting that beneficiaries who perceive lower leakage and faster service delivery experience substantially greater economic gains. A unit increase in the composite governance index raises EDI by 0.42 units, ceteris paribus. Results remained robust under alternative specifications (e.g., ordered logit).

RESULTS & DISCUSSION

The positive coefficients align closely with national and international evidence. (**Vashistha and Bishnoi's 2025)** bidirectional causality findings are mirrored at the micro level: citizens who experience effective, corruption-free local administration report tangible livelihood improvements. In Mangalore's port-city context, the primacy of government effectiveness and corruption control is intuitive—trade, logistics, and small-enterprise activity depend heavily on predictable regulatory and administrative processes **(Rao, 2025).**

Political stability's weaker marginal effect ($\beta = 0.077$) is noteworthy. Mangalore's relative communal harmony and stable local politics may reduce its explanatory power, consistent with earlier Karnataka studies that found political variables less decisive once basic administrative capacity is in place (**Ananthpur, 2006).**

These results also speak to Smart Cities Mission critiques. While infrastructure projects have advanced, the data underscore that *perceived* governance quality—especially responsiveness and integrity—mediates economic outcomes more powerfully than hardware alone **(Government of India, 2025).**

CONCLUSION AND POLICY IMPLICATIONS

Local governance quality exerts a statistically and economically meaningful positive impact on economic development among Mangalore's urban-scheme beneficiaries. The study confirms that even in a relatively prosperous secondary city, citizen perceptions of effectiveness and integrity are not abstract ideals but concrete drivers of income growth, employment stability, and asset building.

To capitalize on this linkage, policymakers should:

1. Institutionalise real-time digital dashboards for scheme monitoring, building on Karnataka's Avalokana platform.
2. Mandate annual social audits with direct beneficiary involvement.
3. Invest in targeted capacity building for Mangalore City Corporation staff in e-governance and anti-corruption practices.
4. Integrate governance performance metrics into performance-based funding under Smart Cities Mission 2.0.

Such measures would amplify the inclusive-growth trajectory charted in the (Karnataka, 2026) and help secondary cities realise their economic potential without exacerbating inequality.

Limitations and Scope for Future Research

The cross-sectional design limits causal claims; self-reported data may contain social-desirability bias. The sample is restricted to scheme beneficiaries, excluding non-beneficiaries and potentially under-representing the most marginalised. Future research could adopt panel designs, randomised governance interventions, or

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comparative studies across Karnataka's tier-II cities. Longitudinal tracking of the same cohort beyond 2026 would strengthen causal inference.

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