

DISCUSSION PAPER SERIES

IZA DP No. 17464

**Resource Windfalls, Public Expenditures
and Local Economies**

Antonella Bancalari
Juan Pablo Rud

NOVEMBER 2024

DISCUSSION PAPER SERIES

IZA DP No. 17464

Resource Windfalls, Public Expenditures and Local Economies

Antonella Bancalari

Institute for Fiscal Studies, UCL and IZA

Juan Pablo Rud

Royal Holloway, University of London, IFS and IZA

NOVEMBER 2024

Any opinions expressed in this paper are those of the author(s) and not those of IZA. Research published in this series may include views on policy, but IZA takes no institutional policy positions. The IZA research network is committed to the IZA Guiding Principles of Research Integrity.

The IZA Institute of Labor Economics is an independent economic research institute that conducts research in labor economics and offers evidence-based policy advice on labor market issues. Supported by the Deutsche Post Foundation, IZA runs the world's largest network of economists, whose research aims to provide answers to the global labor market challenges of our time. Our key objective is to build bridges between academic research, policymakers and society.

IZA Discussion Papers often represent preliminary work and are circulated to encourage discussion. Citation of such a paper should account for its provisional character. A revised version may be available directly from the author.

ISSN: 2365-9793

IZA – Institute of Labor Economics

Schaumburg-Lippe-Straße 5–9
53113 Bonn, Germany

Phone: +49-228-3894-0
Email: publications@iza.org

www.iza.org

ABSTRACT

Resource Windfalls, Public Expenditures and Local Economies*

We use plausibly exogenous variation in the redistribution of natural resource tax revenues in Peru to study whether transfers to local governments can stimulate economic activity in low-income areas. We show that resource windfalls to non-extractive municipalities between 2006 and 2018 changed the size and composition of local government expenditures and had effects on local labor markets and household welfare. We find an increase in labor force participation and private employment, earnings, and formality. The windfalls spur improvements in sectors that do not directly serve municipalities and especially benefit poorer rural areas, which experienced significant increases in household income and consumption, along with a decline in poverty.

JEL Classification: H, O, N56

Keywords: government transfers, labor markets, rural economies, multiplier, Peru

Corresponding author:

Antonella Bancalari
Institute for Fiscal Studies
7 Ridgmount Street
London WC1E 7AE
United Kingdom

E-mail: antonella.bancalari@ifs.org.uk

* We are grateful to Jorge Agüero, Sam Asher, Michael Best, Zach Bleemer, Anne Brockmeyer, Monica Costa-Dias, Guillermo Cruces, Kevin Donovan, Dennis Egger, Lucie Gadenne, Paul Gertler, Paul Goldsmith-Pinkham, John Eric Humphries, Jonas Hjort, David Jaegger, Anders Jensen, Peter Levell, Luis Martinez, Costas Meghir, Imran Rasul, Vincent Somville, Christiane Szerman, Dean Yang and Seth Zimmerman, and the participants at CEPR-BREAD-STICERD-TCD 2024-II, 5th World Bank-IFS-ODI Tax Conference, 8th CEPR-Zurich Conference on Public Finance in Developing Countries, 2023 ASSA-AEA, 2022 INSANE, 2022 LACEA-LAMES, 2021 LACEA-RIDGE, 6th Workshop sobre Economía del Medio Ambiente y Cambio Climático (Universidad Católica Argentina), 2024 CSAE and MAP Peru, and seminars at Yale, LSE, UCL-IFS, Royal Holloway, St Andrews, TSE, and University of Vienna for their helpful comments. We thank Mariana Bernad, Stephanie Parker and Ignacio Ugalde for excellent research assistance. Bancalari gratefully acknowledges the support from the Royal Society of Edinburgh-Fulbright Visitor Scholar Fellowship, the ESRC Centre for the Microeconomic Analysis of Public Policy at the IFS, and TaxDev through the UK Government Public Finance Centre of Expertise funded by UK International Development, and Rud from the Economic and Social Research Council (UK Research and Innovation) (ES/S014438/1). All errors are our own.

1 Introduction

The effectiveness of fiscal policy in promoting economic growth has been the subject of a long-standing debate in economics since the seminal work of [Keynes \(1936\)](#). When a local government receives an influx of resources, the literature identifies different channels that can be at work. On the one hand, transfers can generate positive multiplier effects through investments in infrastructure and demand of local inputs, leading to higher levels of formal employment, entrepreneurship and household consumption ([Corbi et al., 2018](#); [Chodorow-Reich, 2019](#)). Conversely, public sector expansion might crowd out private economic activity. Labor rationing can reduce local aggregate employment and result in an equilibrium with high unskilled wages that lowers productivity and deters entrepreneurship ([Jaimovich and Rud, 2014](#); [Albrecht et al., 2018](#); [Cavalcanti and Santos, 2020](#); [Girsberger and Meango, 2021](#); [Breza et al., 2021](#)).

In this paper, we study how plausibly exogenous transfers to local governments, that affect the size and composition of local public expenditures, impact local economies. In particular, we leverage a legal framework that allocates windfalls driven by the redistribution of natural resource tax revenues among non-extractive district in Peruvian municipalities between 2006 and 2018.¹ The stated aim of this policy was to help backward areas in Peru to close poverty and infrastructure gaps through the fiscal redistribution of resource rents that were ring-fenced for public investment to promote local economic development.

This context offers an ideal setting to study fiscal redistribution. First, we examine a substantial fiscal shock to low-income municipalities: between 2006 and 2018, the Peruvian government redistributed USD 24 billion (2007 PPP), approximately 2% of the GDP of recipient regions annually. These windfalls represented over 20% of the median municipality's annual budget. The average recipient municipality is largely rural, poor, has limited tax and technical capacity, and operates with a small bureaucracy. Second, we leverage quasi-experimental variation in windfall intensity across time and space. Exposure to windfalls is set by a fixed rule from the central government, redistributing natural resource revenues to non-extractive district municipalities (included in the analysis) within the same higher-level jurisdictional boundaries as extractive dis-

¹Districts are the lowest jurisdictional level in Peru. In 2005, Peru had 1,830 districts across 196 provinces and 25 regions, with an average population of 23,000 inhabitants per district. Municipalities are the governing bodies of districts.

tricts (excluded from the analysis). Windfall variation over time arises from shocks to commodity extraction in the same province and region. The intensity of resource windfalls thus depends on jurisdictional rather than spatial proximity to extractive activities. Third, we construct a novel dataset to trace transaction flows within districts and economic development. We create a panel dataset spanning 2006–2018 combining administrative records for 1,600 district municipalities, matched to a repeated cross-section of 700,000 individuals and 200,000 microenterprises interviewed in the national household survey.

We first show that nearly all windfalls convert to public expenditures, with spending shifting toward capital investment (USD 0.80 per dollar transferred), aligning with the ring-fencing of funds for this purpose. We use the resource windfalls in non-extractive districts as an instrument for local public expenditures, and identify two main channels through they flow into local economies: the local procurement of goods and services and the employment of municipal personnel to execute public infrastructure projects. A log-point increase in predicted public expenditures (consider that a standard deviation is 0.6 log-points) translates into the start of two additional productive infrastructure projects and almost half a project to promote social capital. Additionally, municipal human resources nearly doubled, primarily driven by low-skilled workers with fixed-term contracts hired for these projects.

We next investigate how local economies absorbed such a large shock to aggregate demand. Notably, inactivity is high in this context, with only around 65 percent of the labor force active at the beginning of the study period. With a log-point increase in predicted public expenditures, the likelihood of being employed relative to inactivity increased by 6.3 percentage points (ppts), with similar impacts across the public and private sectors, and the likelihood of working in the informal sector decreased by 0.9 ppts. Employment increased across all sectors, including services, construction, manufacturing, and agriculture, and for different occupations (i.e., employer, wage-employed, self-employed and unpaid worker in home business). We further estimate a earnings elasticity of 0.05, with a larger magnitude in the agricultural sector (0.3).

We also find a boost in microenterprise activity, with a revenue elasticity of 0.07 for non-agricultural and 0.33 for agricultural businesses, along with a rise in labor productivity. Revenue gains are mainly driven by entrepreneurs working on their own account and domestic-labor-reliant farmers. Notably, non-agricultural enterprises became 2 ppts

more likely to own business premises, while the elasticity of landholdings for agricultural enterprises reached 0.24.

The estimated increases in employment, earnings, and investment, mostly in industries that do not directly serve municipalities like agriculture, serve as evidence of positive multiplier effects. The effects are real rather than nominal because all monetary values are adjusted using regional deflators. Furthermore, we find no strong evidence of inflationary pressures within districts when examining wages and food prices, aside from increases in housing values that benefit landlords. Real-term increases in earnings are mostly benefiting entrepreneurs.

We also show that the redistribution policy closed spatial gaps across and within districts. Districts in the underdeveloped highlands benefited more than the relatively more affluent coastal areas. Within districts, households in rural areas reaped the greatest benefits from the influx of resources. The impact on employment stands at 26 ppts (compared to 6.3 ppts for all households), and the earnings elasticity rose to 0.33 (compared to 0.05). These rural households experienced real-term income and consumption gains. We estimate an income elasticity of 0.6 and a consumption elasticity of 0.12, driven by increased spending on food and rent. Notably, we observe reductions in rural poverty: a one-log-point increase in public expenditures decreases the likelihood of falling below the local poverty line by 11 ppts. These gains in rural areas align with previous findings showing that agriculture benefited most, as nearly 80% of agricultural workers were in rural areas at the start of the study period.

In support of our identification strategy, we conduct a battery of robustness checks. We highlight important tests here. We demonstrate that the effects are not driven by spillovers or aggregate technological and productivity shocks experienced by nearby extractive activities, as the results remain robust when controlling for time-varying production of the nearest extractive activity. If anything, our results are stronger in districts farther from the nearest extractive activity. We also show that the results are not capturing differential trends in the economy of extractive regions and provinces.

Furthermore, we exploit the fact that the redistribution formula creates a discontinuity in resource windfalls received by contiguous district municipalities along a region's border. Adjacent municipalities in different regions can receive substantially different amounts of transfers depending on the commodity produced in their region and the shocks these receive. We demonstrate that the results are robust, and even greater in

magnitude, to the inclusion of boundary-year fixed effects, when restricting the sample to districts adjacent to a regional boundary.

This paper contributes to three streams of literature. Firstly, it adds to the literature examining the impact of regional transfers and public expenditures on local economies. We bridge the macro and micro literature by using quasi-experimental variation and fine-grain data to delineate the patterns that underpin multipliers. This topic has been primarily studied in the context of high-income countries (see, for example, the seminal paper by [Nakamura and Steinsson \(2014\)](#) and the review in [Chodorow-Reich \(2019\)](#)). A notable exception is [Corbi et al. \(2018\)](#), who estimate employment multipliers and aggregate effects on Brazil's labor market, focusing solely on the formal economy. In contrast, our study delves into individual labor market outcomes, also capturing the informal sector, where the majority of economic activity occurs in LMICs. Furthermore, we map the flow of transactions from municipalities into the private sector, and estimate revenue gains among enterprises, and income and consumption gains among households.

Second, our research complements the growing body of literature studying the general equilibrium effects of exogenous shocks to labor demand and income in LMICs. While previous studies focus on household transfers ([Egger et al., 2022](#); [Angelucci and De Giorgi, 2009](#); [Gerard et al., 2021](#)) and employment programs ([Imbert and Papp, 2015](#); [Muralidharan et al., 2023](#); [Banerjee et al., 2021](#)), our focus shifts to public investment and the characterization of indirect beneficiaries in terms of location, sector and job characteristics. Given that public expenditures in LMICs typically involves purchasing or producing output rather than transferring funds to individuals, our analysis of a nationwide policy that increased public spending provides a step forward in enhancing the external validity of existing research.

Finally, while there is a vast body of literature documenting the effects of natural resources on economic development, there is scant evidence on the role of the public sector in channeling these resources ([Aragón and Rud, 2013](#); [Loayza and Rigolini, 2016](#)). Notable exceptions are [Monteiro and Ferraz \(2012\)](#); [Caselli and Michaels \(2013\)](#) for Brazil and [Martinez \(2023\)](#) in Colombia that find only modest impacts of resource-related windfalls on living conditions and public service provision. While the former studies highlight how resource leakages from corruption explain these modest impacts, the latter stress the need to build institutional capacity through taxation.

Recent studies in Peru have highlighted positive effects of resource windfalls on school performance (Agüero et al., 2021) and improvements in municipal efficiency with large windfalls (Maldonado and Ardanaz, 2023), while other research found no effects on district-level connectivity to public services, poverty, nor inequality (Aragón and Winkler, 2023). Our research, however, takes a different approach by matching municipal data with individual-level data over a longer period that includes the commodity price boom and focusing exclusively on non-extractive municipalities. This allows us to explore the effects of resource windfalls separately from mining activity, revealing positive impacts on local labor markets and household welfare, especially in disadvantaged rural areas.

The paper’s structure is as follows: Section 2 provides background information about municipal resources. Section 3 describes the data and the empirical approach. In Section 4 we show the main set of results. Section 6 provides the conclusions.

2 Background

2.1 Local resource windfalls in Peru

In 2005 Peru passed a law establishing that half of the natural resource tax revenues accrued from large-scale natural resource extraction activities and collected by the central government, known as ‘Canon’, had to be transferred back to local governments. Beneficiaries included governments in districts without extractive activity but within the same administrative division as districts that did have extractive activities.

In this setting, ‘Canon’ resources constitute a plausibly exogenous change in the size of local government budgets and in the composition of public expenditures. The law established that the canon had to be redistributed to the regional governments and local (province and district) municipalities located in the jurisdictions where natural resources are extracted.²

To understand the ‘Canon’ redistribution rule, it is important to note that Peru is organized into four levels of government: (1) a central government, (2) 25 regional gov-

²The area of extractive activity is defined as the administrative boundaries in which natural resources are extracted, e.g. where the electric power generation plant is located, the gas fields exploited, the large-scale fishing landing places are located, and the larger forest concessions or authorizations are located. If the extraction process takes place in more than one district, ‘canon’ is distributed among these extractive districts proportionally to the corresponding sales specified by companies.

ernments, (3) 196 provincial municipalities, and (4) 1,830 district municipalities. The redistribution criteria were established when the law was enacted in 2005 ([Congreso de la Republica del Peru, 2019](#)) and have remained unchanged since, as follows:

1. 10% goes directly to the district of the extractive activity, that is, the municipality where the extraction takes place;
2. 25% to all district and province municipalities located in the same province;
3. 40% to all district and province municipalities located in the same region;
4. 25% to the regional government, destined for research and universities.

As the redistribution adds up, extractive districts receive the most. We identify non-extractive districts as those in which no extractive activity took place at any point during the period of study. Given the redistribution criteria, non-extractive districts located in the same province or region of extractive districts still receive relatively large resource windfalls.

The percentage of 'Canon' in points (2) and (3) is redistributed using a poverty index in a progressive way, with higher weight given to poorer districts, but only among non-extractive districts. The poverty index uses information from the Population Census of 2005 (population and unmet basic needs, including lack of access to water, sewerage and electricity), Agricultural Census of 1994, Census of Children Heights of 2005, District Registry of 2005 and the district's altitude above sea level. Notably, the values of the index are fixed and were set before the start of the period of analysis.

The residual 'canon' budget that is not used by the municipality in one year can be used in the following years, hence enabling municipalities to smooth investments by carrying over unspent funds.

The largest source of 'Canon' between 2006 and 2018 in non-extractive districts comes from mining, approximately 60%, followed by gas (more than 24%) and oil (11.5%, see [Figure A1](#)). [Figure C1](#) shows the spatial distribution of the main extractive activities in Peru that took place in the period of study, where we can observe that these are spread throughout the national territory. Mining activity is the most common, taking place across the highlands and coast of Peru. Oil activities are concentrated in a few districts in the Amazon and north-coast area, while gas activities take place only in

two districts of the highlands, adjacent to the Amazon basin. Fewer than 1% of non-extractive districts are exposed to commodities other than minerals, highlighting the importance of mining activities.

Transfers from the central government to municipalities increased dramatically since the mid 2000s, driven mostly by 'Canon'. Figure 1, Panel A, shows that between 1997 and 2005, nationwide government transfers to non-extractive municipalities were below USD 1,000 million in real terms. From 2005 onward, the increase in total government transfers is accompanied by the increase in canon in non-extractive districts.³

At the beginning of the study period, 'Canon' represented an average 18% of the budget of all non-extractive district municipalities, and almost half of this share corresponded to mining canon. The importance of mining canon increases over time, representing over two thirds of overall resource windfalls in the following years. In 2007 the share of canon over the total budget achieves a peak, representing over 30% on average (mining canon was almost 25% of the budget). There is great heterogeneity in the share of canon from the overall budget across municipalities and years. During the commodity boom years, canon represented around 10% of the budget for the bottom 10th percentile, and more than 40% of the budget for the top 75th percentile. The median municipality received resource windfalls equivalent to 20% of their annual budget (see Figure A2, Panel (B)).

Figure 1, Panel B, shows the yearly distribution of resource windfalls. We can observe that most non-extractive municipal governments receive some canon (in all years, the municipalities in the 10th percentile receive non-zero resource windfalls). Furthermore, there is substantial dispersion across non-extractive municipalities, with top recipients benefiting more in years when the nationwide canon was larger. Even during the expansionary years associated to a commodity boom, canon realizations fluctuated to within municipalities year-on-year.

Figure 2 illustrates the features of the 'Canon' allocation formula. It depicts the evolution over time of the average windfalls for extractive municipalities, non-extractive municipalities within the same province as extractive ones, and non-extractive municipalities outside the province boundaries but within regional boundaries as extractive

³The ability of district municipalities to collect taxes is limited, and thus rely heavily on transfers from the central government. In 2015, only 12.1% of the total municipal budget came from local tax revenues, while 51.7% came from transfers from the central government, and 30.7% of those corresponded to canon (Ministerio de Economía y Finanzas, 2016).

ones. Three important observations arise: first, as expected, extractive district municipalities receive larger levels of resource windfalls, which spiked during the commodity boom years. Second, in line with the ‘Canon’ redistribution criteria, non-extractive municipalities in the same province as extractive ones receive more windfalls over time than those located only in the same region. Finally, for non-extractive municipalities inside the same province or regional boundaries as extractive ones, there is no systematic difference in the levels and trends of resource windfalls depending on their proximity to the closest mine.⁴ This final point highlights how exposure to resource windfalls depends on jurisdictional rather than spatial distance from where the extractive activity takes place.

2.2 Windfalls and municipal expenditures

The resource windfalls we study are not perfectly fungible. They are ring-fenced for public investment to foster local development and improve living standards. District municipalities must spend most of these resource windfalls in capital expenditures, including the procurement of goods and services to undertake public works. Municipalities can only use up to 20% of the resource windfalls to fund current expenditures, which include labor and operation costs of existent public infrastructure.

As such, the expenditures composition of municipalities is very different when comparing all sources with resources windfalls from canon. Between 2006 and 2018, while on average non-extractive municipalities allocated almost half of their total budget to current expenditures, less than 20% of resource windfalls were allocated to this category, in line with the government guidelines (see Figure A3).

There are broadly three channels through which municipal expenditures driven by these resource windfalls can affect local economies. The first channel is through the local procurement of goods and services, including inputs and services provided by private contractors, to execute public projects financed by resource windfalls from ‘Canon’. The majority of resource windfalls in non-extractive districts are primarily directed towards local procurement of goods and services. From 2006 and 2018, approximately 60% of resource windfalls were destined to this end. The remaining percentage of resource windfalls was destined towards investments and other types of

⁴The sample here is restricted to all districts in 23 regions that have had at least one mining activity at any point between 2005 and 2018.

expenditures. The distribution of resources across specific types is similar overall when comparing those funded by all resources with those funded by resource windfalls (see Figure A4).

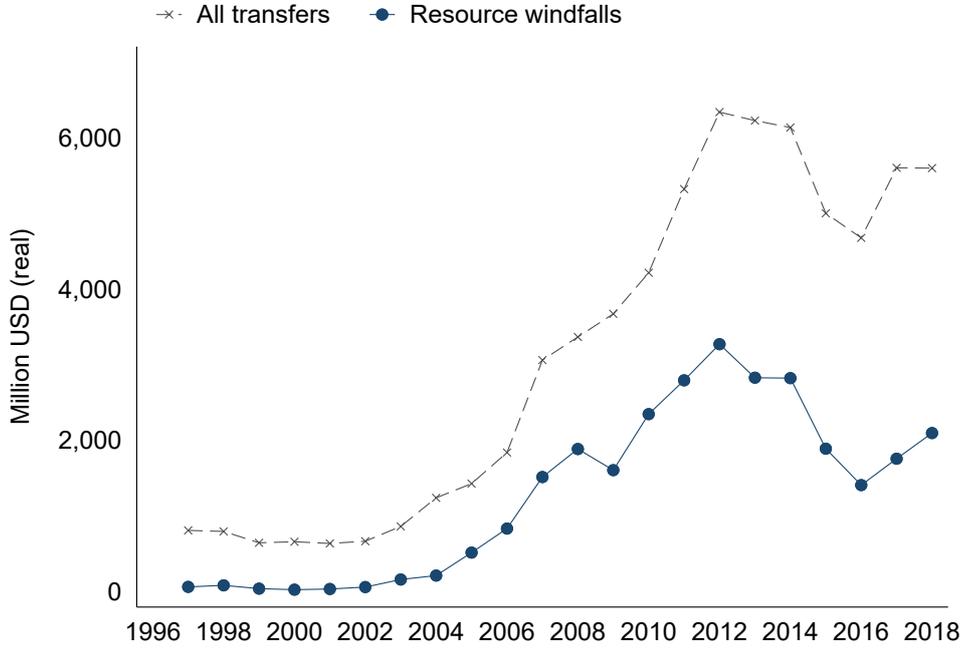
The second channel is through developing and completing infrastructure that support private sector development, such as irrigation or other agricultural projects, transport and telecommunications (TTC), housing, water and sanitation (WASH), energy and other physical infrastructures. In the longer-run, we can also expect social capital projects in the areas of education, culture and recreation, safety and security, social protection and health, to enable greater productivity in the public sector. 'Canon' resources grant municipalities full discretion over investments across these sectors, as long as the projects are deemed feasible by the local offices of public investment under the Ministry of Economy and Finance.

The third channel is by hiring municipal staff. 'Canon' funds allow hiring staff to work on public investment projects. In Peru, municipalities frequently hire engineers and blue-collar workers directly for public works (State Comptroller of Peru , 2014), resulting in resource windfalls primarily boosting demand for unskilled labor. Between 2006 and 2018, around 20% of the resource windfalls in non-extractive districts were destined to this end (see Figure A4). Municipalities are an attractive employer: they pay well and offer good benefits, which makes them competitive with private sector jobs (Table A3).⁵ By 2006, an average municipality had 50 employees and employed 22% of the wage earners of an average district. Public sector expansion can lead to labor rationing, causing employment spillovers to private-sector workers in a slack labor market or increasing low-skilled wages, which may reduce or stabilize overall employment in a tight labor market (Breza et al., 2021).

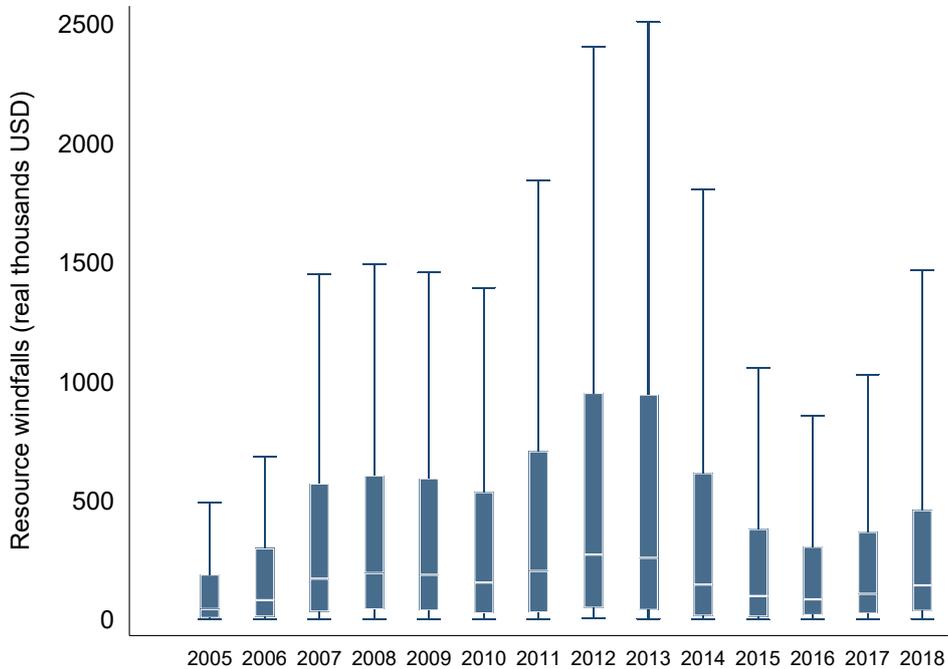
⁵Similar patterns in terms of attractiveness and composition of public sector jobs have been documented in other Latin American countries (Albrecht et al., 2018; Cavalcanti and Santos, 2020) and Africa (Rud and Trapeznikova, 2020)

Figure 1: Over-time variation in transfers among non-extractive districts

(A) Inter-governmental transfers, nationwide total

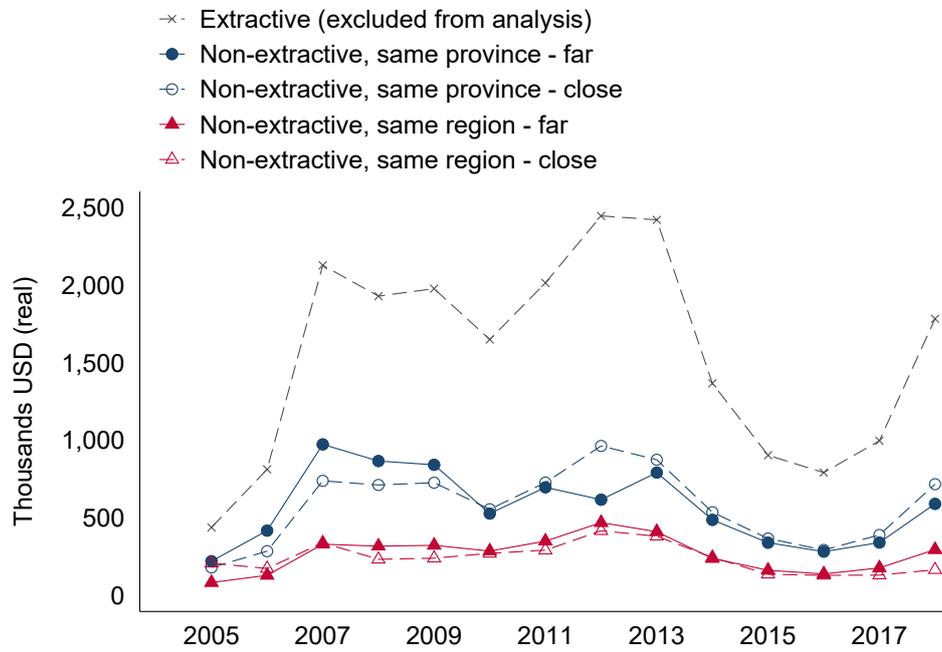


(B) Distribution of resource windfalls



Notes. Panel (A): Nationwide transfers measured in million of real USD. Panel (B): Distribution of resource windfalls, measured in thousands of real USD per year. The upper spike denotes the top 10 percentile and the bottom the bottom 10 percentile, while the upper border of the box denotes the percentile 75 and the bottom the percentile 25. The middle white line in the box denotes the median. Sample restricted to non-extractive districts.

Figure 2: Over-time variation in resource windfalls by location



Notes. Resource windfalls over, measured in thousands of real USD per year. Extractive districts are excluded from the analysis. 'Far' denotes districts that are located at or above the median distance to the closest mining activity, and 'Close' are those located below. Sample restricted to mining regions.

3 Data and methodology

3.1 Data

We provide a novel link of several sources of administrative data with survey data that allows us to explore how plausibly exogenous transfers to local governments affect the size and composition of government expenditures and how these impact local labor markets and economies. We use data from non-extractive municipalities for the analysis. Appendix B provides definitions of the variables used in this study, indicating each data source.

3.1.1 Municipal and district data

We construct a panel dataset of over 1,600 non-extractive districts using annual administrative reports from 2006 to 2018. Data on municipal budgets and expenditures are sourced from the National System of Financial Administration (SIAF, in Spanish), which provides details on annual 'Canon' transfers and expenditures by type (e.g., capital or current). Through string analysis, we identify specific expenditures categories such as human resources and goods and services. All monetary values are converted to U.S. dollars using nominal exchange rates and adjusted to 2007 prices. The Canon' transfers are transformed using the inverse hyperbolic sine function. For expenditures data, we apply a log transformation to focus on the intensive margin, avoiding the unit-dependence of log-like transformations of dependent variables (Mullahy and Norton, 2024; Roth and Chen, 2024). Notably, fewer than 1% of 'Canon' and expenditures variables are zero.

We identify investments in public works using data from InfObras, a system of the State Comptroller that stores all records of infrastructure projects in Peru since 2012. All public agencies developing public investment projects are charged with registering the project and updating its development in the system.⁶ We have data from 63,000 projects implemented in study municipalities on the inception, start and completion date, as well as the type of project: (i) productive, including agricultural, transport and telecommunications (TTC), housing, water and sanitation (WASH), energy, and other physical infrastructure; and (ii) social capital, including education, culture and

⁶Norm N° 007-2013-CG/OEA.

recreation, safety and security, social protection and health. We compute the number of projects started and completed out of those active per year for the 1,600 non-extractive districts in the analysis.

We match this data to the Registry of Municipalities (RENAMU for the acronym in Spanish) in order to measure public employment. This dataset includes information on the stock of human resources by occupation (i.e. manager, professional, technical worker or support, which includes administrative assistants and blue-collar workers), and type of contract (i.e. permanent or fixed-term contract).

To conduct robustness checks, we use two main data sources. To capture extractive activity nearby non-extractive districts, we use data on mining production from the annual reports of the Ministry of Energy and Mining, and on international prices collected from Bloomberg. Using the reported volumes and commodity prices, we compute the monetary values of the 13 minerals produced in Peru, for every district and year, and convert these into U.S. dollars using nominal exchange rates and set them to 2007 U.S. prices in real terms. We further use spatial data on administrative boundaries and geocoded location of extractive activities provided by the Ministry of Energy and Mining to compute the distance from each district's centroid to the closest mining extractive activity. Extractive activities are relatively distant from non-extractive districts, with the average district being 50 kilometers away from the nearest mine. This distance is significant given the underdeveloped transportation networks outside of Peru's coastal strip (Table A2, Panel A.).

To characterize districts and control for the poverty index used to redistribute 'Canon' within non-extractive districts inside extractive provinces and regions, we use data from the 2005 Peruvian Individual and Household Census. By 2005, an average non-extractive district had roughly 14,000 inhabitants, out of which more than half were living in rural areas. Population density in these districts is very low, at 90 inhabitants per km^2 , compared to the national average of 363 inhabitants per km^2 . Access to public services was quite limited, with an average district having only 20% of households with sewerage connectivity, and half with piped-water and electricity connectivity. Only in 20% of households the heads have completed secondary education, and 57% have at least one unmet basic need (Table A2, Panel A.).

3.1.2 Individual and household data

We use data from the Peruvian Living Standards Survey (ENAHO for the acronym in Spanish), an annual household survey collected by the National Statistics Office (INEI for the acronym in Spanish). We build a repeated cross-section of more than 700,000 individuals living in roughly 1,300 districts surveyed between 2006 and 2018, and a sub-sample panel of more than 260,000 households surveyed at least twice between 2007 and 2018. This survey is collected in a continuous, rolling, basis, guaranteeing that the sample is evenly distributed over the course of the calendar year. The survey consists of a stratified household sample representative at the regional level, and includes unique district identifiers, enabling us to match the survey data with municipal-level data.

ENAHO collects individual-level data on labor force participation, earnings and income sources, as well as household-level data, including consumption and poverty.

We use the labor module, collected for all household members above 14 years of age, which includes data on whether the individual was working during the previous week, has a second job, number of hours worked in the last week, the type of job, sector (i.e., public or private) and industry (including codes corresponding to the International Standard Industrial Classification (ISIC)).

Using the ISIC codes, we classify individuals by aggregate economic activities or industries: (i) agriculture, fishing and forestry (henceforth agriculture); (ii) services; and (iii) manufacturing and construction. Furthermore, we classify individuals by type of job: employer, if they own a firm or land and supervises people (e.g. agriculture, construction, mechanics, hospitality, transportation); wage-employee, if they work for a firm (e.g. permanent worker in agriculture or construction); self-employed, if they offer services as an independent contractor (e.g. farmer or household maintenance); and unpaid work, if they conduct unpaid work in their family business (e.g. agriculture or mechanics). Most wage-employed work takes place in services or manufacturing, and only 17% of those in the agricultural sector are wage-employed.

The labor module also includes information on whether individuals are working in the informal sector, defined by the INEI in three stages. In the first stage, individuals are identified as working in the informal sector if they work on a business in the household premises which is not registered with the tax authority.⁷ In the second stage, all wage-

⁷Between 2007 and 2011, for wage-employed, this information was obtained from self-reports of whether the business they work for has accounting books.

employed that do not enjoy working benefits in line with the national labor normative are considered informal workers. Finally, informal workers are those wage-employed whose employer does not contribute to the national health insurance system on their behalf.⁸

Furthermore, we use ENAHO data on earnings, income, and consumption, annualized and adjusted for spatial price variations using local deflators (by region and urban/rural area). We apply a log transformation to these variables and focus on the intensive margin. Particularly, we use data on earnings collected at the individual level, encompassing earnings from both primary and secondary occupations, including wages and profits from businesses. Income extends further to include rental income and other exceptional income sources, including bonus, dividends and other compensations. Both earnings and income account for the values of both cash and in-kind payments. ENAHO's household consumption module covers food (both at home and outside), rent, durables, and non-durables (e.g., clothing, healthcare, transportation, telecommunications, leisure, and miscellaneous expenses), regardless of acquisition method.

Additionally, we get data on local prices from ENAHO. Housing prices are measured through homeowners' self-reported estimates of potential monthly rental values, as nationwide data on actual land and rental prices in Peru is unavailable. For consumer goods prices, we use data from the consumption module on the quantity and value of food consumed by households in the two weeks before the survey, calculating unit prices per kilogram for 310 food items based on over 8 million household-product observations. Following [Egger et al. \(2022\)](#), we construct linear log-price indices for food products, weighted by household expenditures shares. Food products are classified as less tradable if they are among the top 10 food groups consumed as self-produced goods within each region. We use 2006 regional expenditures shares as weights, as ENAHO data is representative at the regional level. The final dataset includes food price indices for a repeated cross-section of over 200,000 household observations.

Additionally, the survey includes data on households' poverty status, which is determined by INEI based on their ability to afford a local basic basket of goods and services. Households are classified as poor if their per capita monthly consumption falls below the cost of the local basket. Poverty status is assessed using a regional and

⁸This information is not available between 2007 and 2011, so we set as informal all individuals working without a formal contract.

urban/rural-specific poverty line.

By 2005, 64% of surveyed individuals were employed. Among those, 42% were females, 43% had at most some primary education, 38% had some secondary education, and less than 20% had tertiary education. On average, workers were 38 years old, the youngest were underage (14 years old) and the oldest were elderly (95 years old). Workers on average earned roughly 7 thousand soles annually (2,363 in 2007 USD), but there were significant disparities, with the highest annual earnings exceeding 21 thousand soles (73,945 in 2007 USD). labor markets were highly informal, with 87% of workers engaged in activities in this sector. Half of the households fell below the poverty line, and almost 40% lived in rural areas (Table A2, Panel B.).

The public sector is an attractive employer. In 2005, public employees earned more, on average, than those working in the private sector: a wage regression controlling for individual characteristics of the workers show a public sector premium of around 7% (Table A1). The educational composition of public workers is skewed towards highly educated workers, with 70% of the public labor force having attained tertiary education. In contrast, the private sector is mainly composed by workers that have attained at most secondary education. There is variation along the different types of jobs. Among employers and wage-employees, more than 20% have attained some tertiary education, while this drops to 11% for self-employed and 7% for those in unpaid work in household business. More than half of self-employed and unpaid workers have only attained at most primary education. While the public sector is gender-balanced, women are minority among employers (23%) and wage-employees and self-employed (above 30%), women are an overwhelming majority among unpaid workers (70%). The private sector suffers from high levels of informality. Almost all self-employed and unpaid workers are informal, and even among employers and wage-employees, informality reaches above 80% of the labor force (Table A3).

ENAH0 also has a household panel component that contains around 30% of the full sample in overlapping 4-year cycles. We use this sub-sample to conduct robustness checks.

3.1.3 Enterprise data

Peru's labor market is notably dependent on self-employment and the creation of microenterprises, more so than other countries in the region (World Bank, 2023). As such, we use data on microenterprise activity from the ENAHO module on businesses.

We use a repeated cross-section of approximately 140,000 non-agricultural microenterprises operating across Peru between 2007 and 2018. This dataset includes information on production, retail, and service businesses, covering monthly revenues, employee counts, and business premises ownership. These data allow us to measure labor productivity and investment, adjusted to real terms using 2007 USD prices. Notably, 66% of non-agricultural microenterprises consist of self-employed individuals, and 34% own their premises, with 85% based in urban areas.

For agricultural microenterprises, we draw on data from over 67,000 businesses operating in major agricultural regions (coast and highlands) over the same period. This survey collects details on crop quantities harvested over the past year and parcel sizes, enabling the construction of agricultural output, labor productivity, and investment measures. Real agricultural revenue is calculated using a Laspeyres index, weighted by the median 2007 crop price of each crop within its region. Labor inputs include both hired labor, measured by self-reported wage bills, and domestic labor, assessed through household members working in agriculture. Landholdings are determined by the total parcel area used for crops. Among agricultural microenterprises, 70% operate in rural areas, with half relying solely on domestic labor.

Additionally, we use district-level data on end-of-year formal firms, workers and mean salary by industry from the system of electronic payrolls from the tax authorities in Peru (SUNAT are its Spanish acronyms). Since 2014, all formal firms are required to register and update employee and third-party records in this system. An important limitation of this data is that it covers only the formal sector, while, on average, 87% of the district workforce is estimated to be in the informal sector (Table A2).

3.2 Empirical strategy

3.2.1 Specification

We first estimate the effect of resource windfalls using the following specification:

$$G_{dt} = \alpha R_{dt} + \gamma_1 x'_{it} + \theta_d + \delta_t + \epsilon_{dt}, \quad (1)$$

Here, R is the amount of resource windfalls that non-extractive district d receives in year t , expressed in logs. G_{dt} is the level of public expenditures in the municipality of district d in year t , expressed in logs. θ_d and δ_t are district and year fixed effects, respectively. Given the inclusion of district fixed effects that control for time invariant district characteristics and year fixed effects that control for common shocks per year, the effect is identified from district-specific deviations in expenditures from the district averages.

We exploit the quasi-exogenous variation in resource windfalls in non-extractive districts as an instrument for local public expenditures. Equation 4.1 thus serves as the first-stage. For a given district municipality, we study the effect of year-by-year variation in municipal expenditures on outcomes using a two-stage least square estimator (2SLS) as follows:

$$Y_{idt} = \beta \hat{G}_{dt} + \gamma_2 x'_{it} + \theta_d + \delta_t + \xi_{dt}, \quad (2)$$

Here Y_{idt} is the outcome of district d or individual i living in district d and year t . x'_{it} is a vector of controls included in individual-level regressions: household size, educational attainment, and indicators for whether the individual is the household head, married and female.

Because the endogenous variable captures treatment intensity, there is more than one counterfactual scenario and hence, more than one causal effect for a given district municipality: the effect of going from 0 to positive expenditures, and from there to further increases or decreases. Hence, there are g_{max} causal effects because g takes on values in a continuous set. The 2SLS estimates are therefore a weighted average of the unit causal response along the length of the potential causal relation. The unit causal response is estimated on the compliers: district municipalities that change public expenditures because they experienced a shock to resource windfalls.

3.2.2 Internal validity

We focus on non-extractive municipalities—those that never had any extractive activity within their boundaries during the study period—to address concerns about the direct

effects of extractive activities on local economies or the potential for reverse causality in areas involved in commodity extraction where Peru is a global leader.

The quasi-exogenous variation that we exploit in resource windfalls in non-extractive districts comes from two sources: exposure and shocks to resource windfalls.

Exposure to resource windfalls follows the redistribution rule set by the central government in the canon law. As presented in Section 2, the level of exposure is determined by a district's jurisdictional relation to an extractive district, namely whether it is in the same province or region, and the number of other districts in the jurisdiction with which revenues are shared. Key to the identification strategy, this redistributing rule was defined prior to the study period and has not been modified since. Although the redistribution of 'canon' within provinces and regions was pro-poor, the poverty index used in this redistribution was also fixed over time, and hence it is captured by the district fixed effects and not endogenous to the labor market outcomes we study.⁹

Shocks to resource windfalls come from fluctuations in the production value of extractive districts located in the same jurisdiction as non-extractive districts. During our study period, these changes were largely driven by fluctuations in commodity prices set internationally. Figure C2 shows that the over-time dynamics of nationwide resource windfalls follows closely that of mineral prices, and although a bit less closely, that of oil prices. Resource windfalls in non-extractive districts achieve a first peak in 2008, when there is also a peak in both mineral and oil prices, it drops down again in 2009, and increases up to 2012, around the commodity boom. They fall again until 2016 and starts increasing afterwards, just like mineral prices.¹⁰

The validity of the exclusion restriction lies on the resource windfalls in non-extractive districts affecting local labor markets and the economy only through municipal expenditures. The variation in resource windfalls is similar to the approach of a quasi-experimental shift-share design (Borusyak et al., 2021). 'Canon' in Peru has already been used in Economics research as shocks exogenous to human capital formation (Agüero et al., 2021).

If the shocks to the values of natural extraction are as good as randomly assigned to

⁹We show in Section 4 that poverty-specific trends in outcomes are not driving the results.

¹⁰Figure C3 shows the growth in international prices for each of the main six main minerals produced in Peru, and confirms the over-time patterns summarized in the mineral price index presented in Figure C2. This plot also demonstrates that mineral prices tend to fluctuate in unison. Table C1 presents the exposure to different commodities within provinces and regions.

non-extractive districts across years, we expect them to not predict pre-determined outcomes. Tables D1 and D2 show that there is indeed no statistically significant effect of the changes in future resource windfalls (between 2006 and 2018) on the 2004 municipal human resources and individual-level labor market outcomes in each non-extractive district.

We alleviate further concerns by conducting a battery of robustness checks, presented in Tables D3 and D4. Firstly, we rule out the possibility that the effects are driven by endogenous changes in commodity production, potentially spilling over into non-extractive districts, rather than internationally-set prices. We demonstrate that the results remain robust when controlling for the time-varying value of production from the nearest extractive activity.

Secondly, we exploit the discontinuity in resource windfalls received by contiguous municipalities along a region's border, as created by the redistribution formula.¹¹ This variation arises because different regions are exposed to shocks to different commodities in different years. By focusing on districts adjacent to these regional boundaries, as shown in Figure C4, we demonstrate that our results remain robust to including boundary-year fixed effects. This approach allows us to compare non-extractive districts across borders that follow similar trends in unobservables and that are equidistant to extract activities, but differ in changes to their resource windfalls. This test reduces concerns that resource windfalls simply capture aggregate technological and productivity shocks from neighboring extractive activities, as such shocks are unlikely to align with administrative boundaries.

Thirdly, we alternatively employ a shift-share instrument for *non-extractive* districts computed using data on mineral production and international prices and adhering to the established redistribution rule, as follows: $z_{dt} = \sum_n s_n \frac{1}{D_n} (\sum_k Q_{d'kt} P_{kt})$. The exposure shares include s_n , the redistribution weight associated with either province or region n (0.25 or 0.4, respectively), and D_n , the number of districts in either province or region n . The shocks are driven by $Q_{d'kt}$, the quantity of commodity k produced in *extractive* district d' in year t , and P_{kt} , the international price of commodity k in year t . This shift-share instrument is highly correlated with the resource windfalls (0.72, significant at the 1% level) in mining regions. Our findings indicate that the effects on individual outcomes are stronger using this instrument, likely because it corrects

¹¹We use the regional border IDs developed by Aragón and Winkler (2023).

for attenuation bias due to measurement error in the administrative data on resource windfalls.

Lastly, we rule out the possibility that our results are driven by region-, province-, or initial poverty-specific trends, or by oil and gas regions that might benefit directly from local extraction. For individual-level outcomes, we address unobserved household and worker heterogeneity by including household and individual fixed effects in the subsample panel data.

The Stable Unit Treatment Value Assumption (SUTVA) is likely to hold in our context due to the sparse population of our study districts (91 per km^2 on average).¹² Limited transportation connectivity outside Peru’s coastal strip makes commuting across districts difficult, especially for the predominantly rural inhabitants of the analyzed districts. While there is a concern that resource windfalls might attract workers from other districts, it is important to note that the ENAHO survey assigns individuals to their district of residence rather than their district of work. Thus, any feasible commuting is unlikely to drive the results. We also demonstrate that our results remain robust when excluding the most populated districts where commuting is more feasible (Tables D3 and D4). Although migration could be a remaining concern, Table D5 shows no effects on migration or selective migration based on the socio-demographics of the surveyed population.

4 Main Results

4.1 Transfers and municipal outcomes

We start by showing how the resource windfalls change the size and composition of municipal public expenditures in Table 1. The dependent variables by column are: (1) total expenditures; (3) capital expenditures; (4) current expenditures; (5) any expenditures (capital or current) on human resources; and, (6) any expenditures (capital or current) on goods and services. We present the estimates of Equation in logs (Panel A) and levels (Panel B). For the latter, we use variables that have been winsorized at the top 10 percentile to deal with outliers.

¹²For comparison, the study by Egger et al. (2022) examined rural villages with a population density of 393 inhabitants per km^2 , highlighting the relative sparsity of our districts.

The public expenditures elasticity stands at 0.10, representing the first-stage result.¹³ With an estimated budget elasticity of 0.09, this indicates that a significant portion of the budget increase due to 'canon' is utilized. In fact, each dollar of resource windfall translates to 97 cents in public expenditures. As explained in Section 2, these resource windfalls are allocated to municipal budgets, and unspent funds can be used in subsequent years, allowing for spending smoothing.

Resource windfalls primarily boost capital expenditures, with an elasticity of 0.14, compared to 0.06 for current expenditures. Each dollar of resource windfall translates to 80 cents in capital expenditures, as expected, since 'canon' funds are earmarked for public works. Notably, resource windfalls increase any type of spending (capital and current) on municipal human resources and local goods and services. All estimated effects are significant at the 1% level.

Furthermore, we find no evidence that resource windfalls crowd out other municipal budget sources, such as local taxes and loans. On the contrary, these windfalls enable municipalities to expand their budgets, with the elasticity of tax revenues and loans relative to resource windfalls at 0.04 and 0.10, respectively, on the intensive margin (Table C2).

We turn our focus to further understanding the channels through which resource windfalls stimulate local economic activity. Table 2 shows the OLS (Panel A) and 2SLS (Panel B) estimates of the effect of public expenditures on the number of public works started (columns (1) and (2)), and the rate of completion, measured as the number of infrastructure projects completed over those active (columns (3) and (4)).

A log-point increase in predicted public expenditures (consider that a standard deviation is 0.6 log points), on average, translates into the start of almost two projects (1.9) for productive infrastructure and half project (0.4) to promote social capital. Compared with the initial mean, productive infrastructure projects more than tripled and social infrastructure projects almost doubled. Notably, we observe interesting dynamic effects, whereby both contemporaneous (R_t) and past resource windfalls (R_{t-k}) have a positive and significant effect on the start and completion rates of productive infrastructure projects (Table E1). We do not observe these dynamics for social capital projects.

Next, we estimate effects on municipal human resources. Table 3 presents effects on

¹³The Sanderson-Windmeijer F -stat of excluded instruments is equal to 132, way above the Stock-Yogo weak ID F -test critical values for the 10% maximal IV-OLS size distortion (16.4).

total human resources (column (1)), and on the number of managers (column (2)), professionals (column (3)), technicians (column (4)), support workers, including administrative assistants and blue-collar workers (e.g. supervisors and workers in construction sites, column (5)), and on the share of permanent staff rather than hired through fixed-term contracts (column (6)). It is important to note that, by the beginning of the study period, an average municipality was staffed with 51 workers, and more than half of these were support workers including administrative assistants and blue-collar workers that municipalities often hire directly to implement public works through temporary contracts.

We find that a log-point increase in predicted public expenditures increases in 50.1 the municipal human resources, which means that it doubles the amount compared with the initial mean. This increase is primarily driven by support workers (38.3 additional workers, 1.5 times with respect to the initial mean), which changes the composition of human resources away from managers and in favor of these lower-skilled workers. There is also a positive effect on skilled workers, as professionals and technicians increase in 5.0 (86.9%) and 6.0 (42.6%) workers, respectively. Furthermore, public expenditures pushed by resource windfalls decreases the share of those permanently hired by the municipality (-0.25).

Dynamically, past resource windfalls have a negative impact on municipal staff, driven by reductions in support workers and technicians. Many hires are temporary and tied to the duration of the public works projects (Table E1). These findings align with the observation that ‘canon’ funds are not universally fungible, as they are restricted to specific uses such as labor expenditures linked to public investment projects.

Furthermore, we find no evidence of pre-trends in overall municipal human resources (the only municipal outcome for which we have data available from 2004, before the implementation of the ‘canon’ law). We observe this by plotting the coefficients of interaction terms for year dummies with districts’ mean resource windfalls between 2007 and 2018, from regressions that include district and year fixed effects, with the sample period running from 2004 throughout 2018, having 2006 as the reference period (see Figure D3).

In Appendix D we show how the effects on municipal-level outcomes are robust to the checks described in Section 3.2.2.

In both Tables 2 and 3 the 2SLS estimates are almost three times larger than the

OLS estimates. This difference can be explained by how differently the resource windfalls are used, compared to others sources of municipal budget. Since 'canon' funds are designated for public investment only, these resource windfalls can stimulate local economies by increasing demand for labor and goods and services during project implementation, and once projects are completed, these can boost productivity in the private sector. Table C2, Panel A, shows the OLS and the reduced-form results for all outcomes at the municipal level.

Table 1: Effect of resource windfalls on public expenditures

	Total (1)	Capital (2)	Current (3)	HR (4)	G&S (5)
Panel A: Logs					
Resource windfalls (ln)	0.10*** (0.01)	0.14*** (0.01)	0.06*** (0.01)	0.04*** (0.01)	0.09*** (0.01)
Panel B: Levels					
Resource windfalls (USD 2007)	0.97*** (0.05)	0.80*** (0.03)	0.14*** (0.01)	0.01*** (0.00)	0.12*** (0.01)
Mean (initial, millions)	0.98	0.52	0.37	0.11	0.49
District-years	18546	18546	18546	18546	18546
Districts	1608	1608	1608	1608	1608

Notes. Estimated reduced-form effects of resource windfalls on municipal expenditures by column: (1) overall expenditures; (2) capital expenditures; (3) current expenditures; (4) expenditures in human resources (HR); and (5) expenditures in goods and services (G&S). All monetary values in real terms (2007 USD). Panel A presents regressions using variables expressed in natural logs. Panel B shows regressions in levels using variables that have been winsorized at the top 10 percentile to deal with outliers. All regressions include district and year two-way fixed effects. Standard errors clustered at the district level in parentheses. * Significant at ten percent; ** significant at five percent; *** significant at one percent.

4.2 Labor markets

In this section, we investigate effects on local labor markets. Throughout this analysis we only report the 2SLS estimates (β) using resource windfalls as an instrument, following Equation 2. Table C2, Panel B, show the OLS and the reduced-form results for all outcomes at the individual level.

Notably, inactivity in this context is high, with only 64% employed by 2005. Table 4, column (1), shows that a log-point increase in predicted public expenditures increases the likelihood of working, compared with being inactive, by 6.3 percentage points (ppts). The effect on employment is present in both the public (1.8 ppts) and private sector (6.6 ppts), and we find no differential effect in participating in one sector over the other. Although small in magnitude, we also find a significant decrease in the likelihood of working in the informal sector by 0.01 ppts, as opposed to in the formal

Table 2: Effects on public works

	Started		Completed/Active	
	Productive (1)	Social capital (2)	Productive (3)	Social capital (4)
Public expenditure (ln)	1.91*** (0.39)	0.44* (0.24)	0.10 (0.07)	0.13 (0.08)
AR p -values	0.00	0.06	0.18	0.14
F -stat	55.50	55.50	55.50	55.50
Mean (initial)	0.58	0.26	0.01	0.00
District-years	10910	10910	10910	10910
Districts	1608	1608	1608	1608

Notes. Estimated effects of public expenditures on the following outcomes by column: (1) number of productive projects started, (2) number of social capital projects started, (3) number of productive projects completed over active, (4) number of social capital projects completed over active. ‘Productive’ projects include agricultural, transport and telecommunications (TTC), housing, water and sanitation (WASH), energy and other physical infrastructures. ‘Social capital’ projects include education, culture and recreation, safety and security, social protection and health. Panel A presents OLS estimates and Panel B 2SLS estimates using resource windfalls as an instrument for public expenditures, following Equation 2. All monetary values in real terms (2007 USD) and natural logs. All regressions include district and year two-way fixed effects. Standard errors clustered at the district level in parentheses. * Significant at ten percent; ** significant at five percent; *** significant at one percent. AR p -values correspond to the Anderson-Rubin p -values robust to weak instrumental variable. Data

Table 3: Effects on municipal human resources

	HR	by occupation				by contract
	Total (1)	Managers (2)	Professionals (3)	Technicians (4)	Support (5)	Permanent (share) (6)
Public expenditure (ln)	50.06*** (9.56)	0.78 (0.65)	4.96*** (1.78)	6.02* (3.21)	38.30*** (8.60)	-0.25*** (0.04)
AR p -values	0.00	0.23	0.00	0.07	0.00	0.00
F -stat	133.67	133.67	133.67	133.67	133.67	109.45
Mean (initial)	51.12	4.08	5.81	14.59	26.64	0.33
District-years	18434	18434	18434	18434	18434	16977
Districts	1585	1585	1585	1585	1585	1585

Notes. Estimated effects of public expenditures on the following outcomes by column: (1) – (5) total number of human resources by type; and in column (6) is the share of human resources in permanent rather than fixed-term contracts. ‘Support’ includes both administrative assistants and blue-collar workers (e.g. construction workers and supervisors). Panel A presents OLS estimates and Panel B 2SLS estimates using resource windfalls as an instrument for public expenditures, following Equation 2. All monetary values in real terms (2007 USD) and natural logs. All regressions include district and year two-way fixed effects. Standard errors clustered at the district level in parentheses. * Significant at ten percent; ** significant at five percent; *** significant at one percent. AR p -values correspond to the Anderson-Rubin p -values robust to weak instrumental variable.

sector. Among those employed, we estimate that the elasticity of earnings stands at 0.05.

We then investigate the effects on employment (columns (1) to (3)) and earnings (columns (4) to (6)) in different industries, as shown in Table 5. We observe impacts in industries that do not directly sell to local municipalities, consistent with multiplier

effects within local economies. A one-log-point increase in predicted public expenditures increases the likelihood of employment in the service sector by 3.6 ppts, in manufacturing and construction by 2.2 ppts, and in agriculture by 10.3 ppts, compared with inactivity. We also find differential effects on participation in one industry over another: a 3.6 ppts increase in the likelihood of working in the service sector compared with the construction and manufacturing sector, and a 2.3 ppts increase in the likelihood of working in the agricultural sector compared with the service sector. Furthermore, we identify a significant earnings elasticity in the manufacturing and construction sector (0.08) and the agricultural sector (0.33).

In Table 6 we turn to effects on employment in different types of jobs in the private sector (columns (1) to (4)). A log-point increase in predicted public expenditures increases the likelihood of working as an employer by 0.7 ppts, as wage-employed by 2.7 ppts, as self-employed by 4.1 ppts, and in unpaid work by 13.9 ppts, compared with inactivity. It is important to note that our findings reflect shifts in the composition of labor markets rather than transitions into different jobs or industries.

Table 4: Effect on local labor markets (2SLS)

	Labor market participation			Employed			
	Employed	Public	Private	Hours	Second job	Informal	Earnings (ln)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Public expenditure (ln)	0.06*** (0.01)	0.02*** (0.01)	0.07*** (0.01)	-0.13 (0.40)	-0.00 (0.01)	-0.01** (0.00)	0.05*** (0.02)
AR <i>p</i> -values	0.00	0.00	0.00	0.74	0.83	0.03	0.00
<i>F</i> -stat	91.46	102.12	89.21	83.89	84.29	84.28	83.20
Mean (initial)	0.65	0.13	0.63	38.91	0.16	0.86	8.42
Observations	720985	262605	677144	499577	501454	500856	211074
Districts	1316	1307	1316	1316	1316	1316	1294

Notes. Estimated effects of public expenditures on the following outcomes by column: (1) Employed, indicator variable equal 1 if individual had any job during the previous week, and zero otherwise; (2) Public, indicator variable equal 1 if individual had a job in the public sector during the previous week, and zero if inactive; (3) Private, indicator variable equal 1 if individual had a job in the private sector during the previous week, and zero if inactive; (4) Hours, number of hours worked by individual in the previous week, conditional on being active; (5) Second job, indicator variable equal 1 if individual has a second job, and zero if working only one job, conditional on being active; (6) Informal, indicator variable equal 1 if individual works in the informal sector, and zero otherwise, conditional on being active; and (7) Earnings, deflated earnings for those that report having earnings. All coefficients correspond to 2SLS estimates using resource windfalls as an instrument for public expenditures, following Equation 2. All monetary values in real terms (2007 USD) and natural logs. All regressions include district and year two-way fixed effects, and control for household characteristics. Standard errors clustered at the district level in parentheses. * Significant at ten percent; ** significant at five percent; *** significant at one percent. AR *p*-values correspond to the Anderson-Rubin *p*-values robust to weak instrumental variable.

Table 5: Effects on employment and earnings by industry (2SLS)

	Employed			Earnings (ln)		
	Services (1)	Manuf/Cons (2)	Agriculture (3)	Services (4)	Manuf/Cons (5)	Agriculture (6)
Public expenditure (ln)	0.04*** (0.01)	0.02*** (0.01)	0.10*** (0.02)	0.02 (0.01)	0.08** (0.04)	0.33*** (0.10)
AR <i>p</i> -values	0.00	0.00	0.00	0.23	0.02	0.00
<i>F</i> -stat	98.53	97.00	76.75	88.75	70.60	26.25
Mean (initial)	0.49	0.14	0.43	8.67	8.70	7.52
Individuals	481525	263451	413306	141724	23728	44253
Districts	1315	1305	1316	1240	790	1222

Notes. Estimated effects of public expenditures on the following outcomes by columns: (1)—(3) indicator variable equal to one when being employed in the industry, as opposed to being inactive; (4)—(6) deflated earnings for people working on each industry, in logs. All coefficients correspond to 2SLS estimates using resource windfalls as an instrument for public expenditures, following Equation 2. Same notes as Table 4.

Table 6: Effects on private employment by occupation (2SLS)

	Employer (1)	Wage-employed (2)	Self-employed (3)	Unpaid work (4)
Public expenditure (ln)	0.01* (0.00)	0.03*** (0.01)	0.04*** (0.01)	0.14*** (0.02)
AR <i>p</i> -values	0.09	0.00	0.00	0.00
<i>F</i> -stat	97.14	89.98	98.22	90.57
Mean (initial)	0.10	0.37	0.42	0.24
Individuals	245592	375852	413524	302552
Districts	1308	1313	1316	1315

Notes. Estimated effects of public expenditures on an indicator variable equal to one when being employed in the following occupations, by column, as opposed to being inactive: (1) employer; (2) wage-employed; (3) self-employed, and (4) unpaid work in family business. All coefficients correspond to 2SLS estimates using resource windfalls as an instrument for public expenditures, following Equation 2. Same notes as Table 4.

Some of these estimated effects are sustained over time. While the effect on employment is not sustained, the effect on earnings is, along with past resource windfalls increasing hours of work (0.38 hours). Past resource windfalls also appear to slightly increase informality over time (0.01), in line with a sustained impact on unpaid work in home production (Table E1).

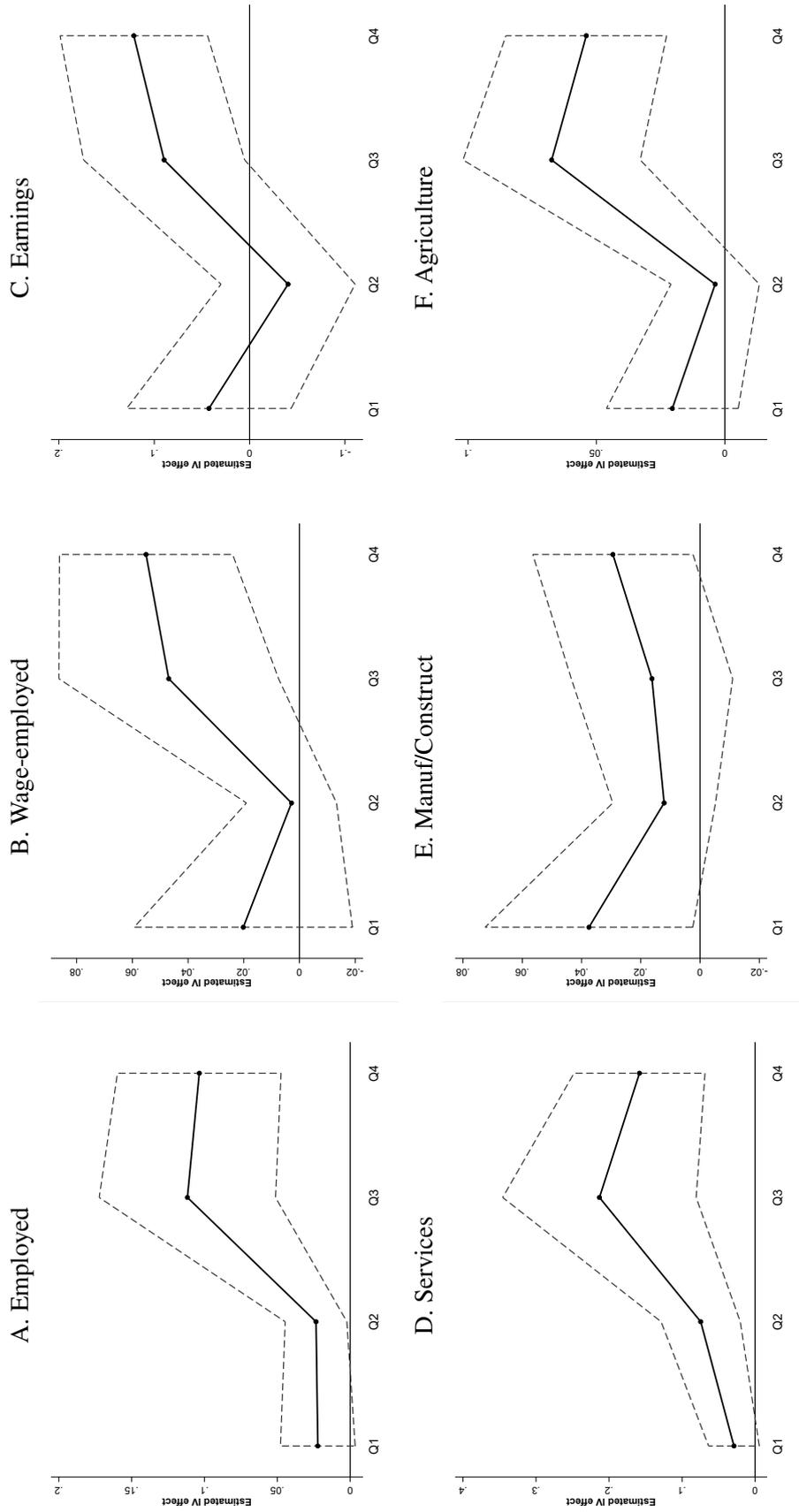
We find no evidence of pre-trends when plotting the coefficients of interaction terms for year dummies with districts' mean resource windfalls between 2007 and 2018, from regressions that include district and year fixed effects, with the sample period running from 2004 throughout 2018, having 2006 as the reference period (see Figure D4).

In Appendix D we demonstrate that the effects on individual-level outcomes are robust to the checks described in Section 3.2.2.

The effects are not driven by spillovers from neighboring mining activity; in fact, the point estimates are larger in districts located further from mines. We computed the distance from each municipality's centroid to the nearest operating mine during the study period and re-estimated effects for each distance quartile. Results in Figure 3 show that employment outcomes, including employment rates, wage employment, and earnings, are comparable to or greater in municipalities farther from mining activities (Panels (A), (B), and (C)). This trend is also evident in employment across different sectors (services, agriculture, manufacturing, and construction –Panels (D), (E), and (F), respectively), suggesting that these industries are not significantly benefiting from increased demand due to nearby mining operations. A similar pattern is observed for municipal human resources (see Figure D1). Note that lower distance quartiles refer to districts within 20 to 35 kilometers of a mine. Although the distance seems relatively close, rugged terrain and limited transportation infrastructure in the highlands can result in considerable travel times.

Beyond validating our identification strategy, Figure 3 highlights an interesting heterogeneity: labor demand shocks from municipal resource windfalls are more effective in mobilizing individuals out of inactivity and increasing earnings in non-extractive districts farther from mines. These districts were initially disadvantaged, having a higher proportion of rural populations, limited access to piped water and sewerage, inadequate housing, unmet basic needs, and overcrowding, as well as younger and less educated household heads (see Figure D2).

Figure 3: Heterogenous effects (2SLS) by quartiles of distance to closest mine



Note. Spikes correspond to 95% confidence intervals. All monetary values in real terms (2007 USD) and natural logs. All coefficients correspond to 2SLS estimates using resource windfalls as an instrument for public expenditures, following Equation 2. All regressions include district and year two-way fixed effects, and control for household characteristics. Standard errors clustered at the district level. Q1 is at or below 20 kms; Q2 spans {20 – 35] kms; Q3 spans {35 – 65] kms; and Q4 is above 65 kms. The exact quartiles change slightly across outcomes due to changes in the sample of analysis.

4.3 Enterprise activity and local prices

We find that municipal transfers contribute to growth in microenterprise activity in the private sector, both for non-agricultural (Panel A) and agricultural firms (Panel B). Table 7, columns (1) and (2), indicate that the revenue elasticity is 0.07 for non-agricultural businesses and 0.33 for agricultural businesses, respectively, both of which are significant at the 1 percent level. These benefits are primarily captured by entrepreneurs working on their own account and farmers relying on domestic labor. This is consistent with earnings increasing mainly for entrepreneurs (Table E3). Furthermore, we observe improvements in labor productivity. The elasticity of revenue per worker is 0.08 for non-agricultural businesses and 0.28 for agricultural businesses (column (3)).

Notably, we find a significant investment response from firms (column (4)). For non-agricultural businesses, there is an increase in capital investment, with a one-log-point rise in predicted public expenditures raising the likelihood of entrepreneurs owning their business premises by 2 ppts. For agricultural enterprises, we observe an increase in land ownership, with an estimated elasticity of 0.24 for landholdings relative to predicted public expenditures, statistically significant at the 1 percent level.

Furthermore, we find suggestive evidence that the number of firms are increasing in the local economy, as well as the total number of individuals employed by these formal firms (Table E2).

We next focus on the extent to which local prices are affected to understand whether our estimated effects are nominal or real. Although we use earnings and revenues in real terms, the deflators may not fully capture changes in district-level inflation. To address this, we analyze data on input and output prices. When looking at inputs, we find no significant effects on earnings per hour worked in the public, non-agricultural, or agricultural sectors for wage-employed individuals working at least 20 hours per week, though in agriculture the Anderson-Rubin p -value is 0.09 (Table E3). When focusing on district-level mean wages in the formal economy, we find small point estimates and not statistically significant for the public and agricultural sectors. Only in the non-agricultural sector do we find a statistically significant positive effect on mean wages.

When looking at outputs, we find a positive elasticity on housing values, standing at 0.10 and significant at the 1 percent level. To look at this we estimate a hedonic regression including as additional controls dwelling and household characteristics to

account for determinants of value and for systematic biases in the self-reporting of values (Table E4, column (1)).

we turn to effects on consumer goods prices relying on detailed household-level data. Table E4, columns (2)–(4) show no significant effects on food prices. The average food price inflation is minimal, at 0.001%; for less-tradable products, it is slightly negative at -0.002%, and for more tradable products, it stands at 0.003%, with precise estimates across all categories.

Overall, there is no strong evidence of strong inflationary pressures in local economies when analyzing prices for a range of input and output prices.

Table 7: Microenterprise activity (2SLS)

	Revenues (ln)		Productivity (ln)	Investment
	(1)	(2)	(3)	(4)
Panel A: Non-agricultural	All	Own account	Revenues per worker	Owns business premise
Public expenditure (ln)	0.07** (0.03)	0.10*** (0.03)	0.08*** (0.03)	0.02** (0.01)
AR <i>p</i> -values	0.01	0.00	0.00	0.03
<i>F</i> -stat	81.85	72.10	81.85	81.85
Mean (initial)	4.54	4.21	4.20	0.34
Individuals	139996	92437	139995	139996
Districts	1206	1153	1206	1206
Panel B: Agricultural	All	Only domestic labor	Revenues per worker	Owned land (ha, ln)
Public expenditure (ln)	0.33*** (0.11)	0.37*** (0.12)	0.28*** (0.09)	0.24*** (0.09)
AR <i>p</i> -values	0.00	0.00	0.00	0.00
<i>F</i> -stat	60.41	44.68	60.41	52.79
Mean (initial)	7.08	6.58	6.22	-0.14
Individuals	67553	35982	67550	55030
Districts	975	951	975	962

Notes. Estimated effects of public expenditures on the following outcomes by column: (1)–(2) Revenues: value of production sold, for entrepreneurs working on their own account (Panel A) and farmers relying exclusively on domestic labor (Panel B); (3) Productivity: labor productivity, measured as revenues per worker; (4 - Panel A) Business premise ownership: an indicator equal to one if the entrepreneur owns their business premise; and (4 - Panel B) Land ownership: hectares of land owned by the farmer. All coefficients correspond to 2SLS estimates using resource windfalls as an instrument for public expenditures, as outlined in Equation 2. All monetary values in real terms (USD 2007) and natural logs.

4.4 Spatial disparities and household welfare

Considering that the Canon law targeted areas with high poverty and basic unmet needs and infrastructure gaps, we next investigate the extent to which deprived areas benefited

from the redistribution of natural resource taxes. We focus on two aspects of spatial disparities. The first one pertains to geographic regions. Peru can be broadly divided into three geographic regions: the affluent coast to the west, the rural highlands in the central strip spanning the Andes, and the remote Amazonian rainforest in the east. The highlands and the rainforest areas are the most remote and deprived.¹⁴ In 2005, the average district in the coast had a 45% share of households with unmet basic needs, compared with 62% in the highlands and 58% in the rainforest.

We find important heterogeneity by geographical region (Table E5). While the effects on municipal outcomes are similar in magnitude and precision across the three regions, the effects on individual-level outcomes mainly manifest in the highlands. For instance, the effect on employment has a magnitude of 0.13 in the highlands, while it is 0.04 in the rainforest and 0.02 in the coast. Likewise, the earnings elasticity is 0.16 and significant at the 1% level in the highlands, whereas it is insignificant in the rainforest and close to zero in the coast. Furthermore, in the highlands, the earnings elasticity in the agricultural sector is the highest, standing at 0.49 and significant at the 1% level, while it is not significant in either of the other two regions.

The second aspect of spatial disparity that we explore pertains to rurality. In half of districts in the analysis, almost 60% of the population is rural, with the bottom percentile having no rural population and the top percentile being almost all rural population (Table A2). While fewer than 15% of households are classified as rural in the coast, almost half are classified as rural in the highlands and rainforest regions. At the beginning of the study (in 2005), rural households were twice as likely to have high economic dependency, defined as the number of inactive adults over the number of active adults. They were also four times more likely than urban households to have poor dwellings, live in overcrowded conditions, and have school-aged children not attending school. Additionally, they were almost ten times less likely to have access to water and sanitation services in their dwelling.

Figure 4 shows the point estimates from our main specification when the sample split households according to their location, i.e. urban, peri-urban and rural areas. Our

¹⁴Lima, the capital city, is situated in the central coast, housing almost half of Peru's population and generating half of the country's GDP. The next most affluent cities are located to the north and south of Lima, also along the coastline, connected via a main highway. The highlands are primarily linked to these larger cities via arteries of this main highway, as they lack railroad connectivity due to the rugged terrain. The rainforest is only accessible via air travel or navigating the Amazon River.

results show clear evidence that households located in rural areas benefited the most from the increased influx of resource windfalls into the local economy. We provide estimates stratified by area: urban (with more than 10,000 households), peri-urban (with fewer than 10,000 households), and rural areas.¹⁵

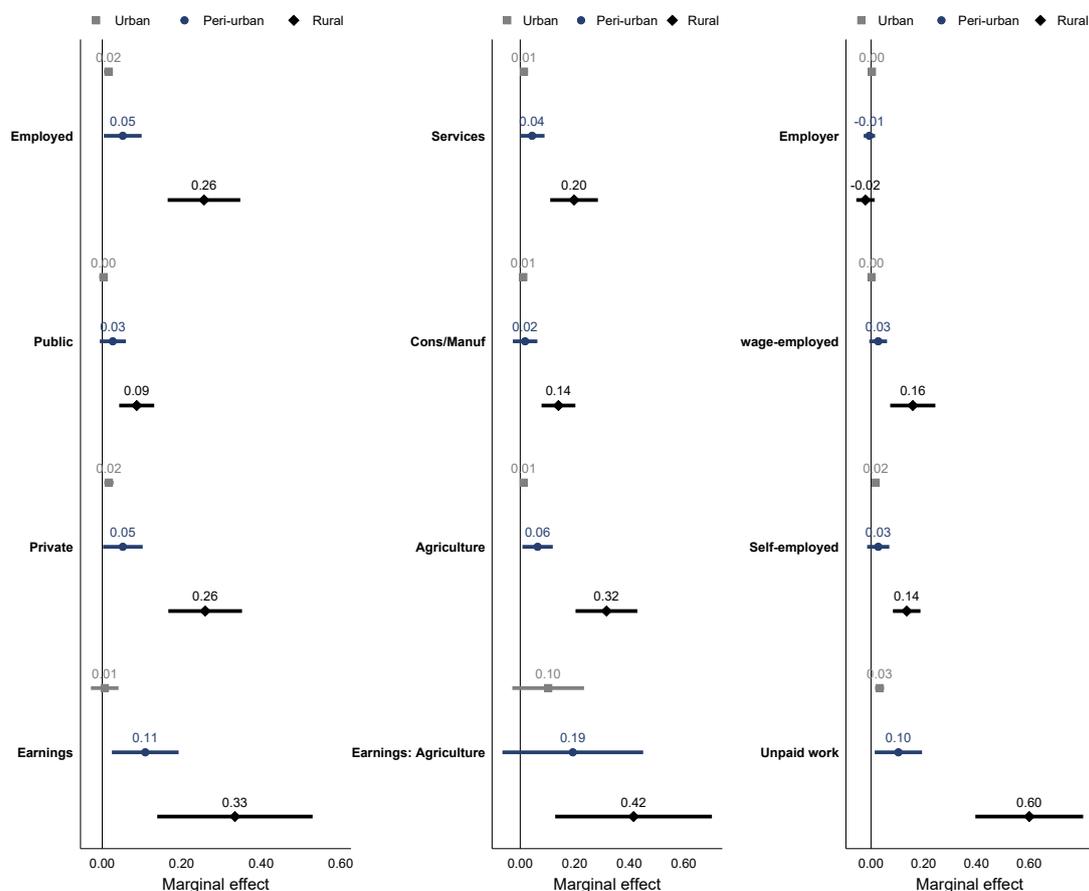
For each individual-level outcome, there is a noticeable gradient in the magnitude of effects, with coefficients closer to zero for urban areas and increasing coefficients for peri-urban and rural areas. For example, when considering employment compared with inactivity, the effect is 0.02 for urban areas, 0.05 for peri-urban areas, and 0.26 for rural areas. Given that in 2006, the employment shares were 0.59, 0.65, and 0.74 in each respective area, these results translate into increases equivalent to 3.3%, 7.7%, and 35% with respect to the initial levels.

The earnings elasticity is also highest in rural areas, standing at 0.33, compared with 0.11 in peri-urban areas and an insignificant effect of 0.01 in urban areas. In rural areas, the estimated impacts on working in the private sector are statistically higher than in the public sector. Positive and statistically significant effects on employment are observed for all industries in rural areas, whereas they are close to zero and insignificant in urban areas. In rural areas, positive and significant effects are found when estimating employment by type of job (except for being an employer), with the highest magnitude seen for engagement in productive activities at home (0.60).

We discuss here alternatives, but understanding the drivers of the heterogeneous impacts by area is beyond this paper's scope. We find no correlation between resource windfalls and initial district rurality (Figure E2). Greater mobility in urban areas might cause spillovers across districts that create an attenuation bias; however, the same impact gradient appears on the predominantly urban and well-connected coast (Figure E1). Another explanation could be differences in project portfolio between urban and rural areas. Although we observe no substantial variation in sectoral composition by rurality (Figure E3), we may be missing differences in project types or the possibility of higher returns to similar projects in rural areas. A final possibility involves disparities in initial slack and reservation wages (Figure E4). While inactivity was lower in rural areas (26% vs. 41% in urban), agricultural self-employment was much higher (26% vs. 1% in urban and 9% in peri-urban), wages were significantly lower, and smaller firms were prevalent—all indicators of economic slack (Walker et al., 2024).

¹⁵We follow the thresholds set by the ENAHO survey to classify areas.

Figure 4: Heterogenous effects by area



Notes. Plotted coefficients correspond to 2SLS estimations of the effects of resource windfalls following Equation 2, stratifying the sample by area. All regressions include district and year two-way fixed effects, and control for household characteristics. Standard errors are clustered at the district level. Confidence intervals at 95% level.

We next explore the extent to which these significant changes in labor market outcomes can be reflected in improved outcomes in the real economy of rural areas. In Table 8 we present our estimates of the income and consumption elasticity in real terms. The income elasticity is greater than the earnings elasticity, at 0.60 (column (1)) compared with the latter standing at 0.33 (Figure 4). The consumption elasticity stands at 0.12 (column (2)), driven by increased consumption in food (0.10, column (3)) and rent and gas (0.17, column (4)), with no statistically significant changes in durables consumption (column (5)). Regarding assets, there is no effect on the likelihood of rural households owning their dwelling (column (7)). Non-durables consumption shows no change (column (6)), masking an increase in clothing and healthcare consumption (with elasticities at 0.22, p -value 0.01, and healthcare, p -value 0.05) offset by a decrease in

leisure consumption (0.17, p -value 0.1).

Overall, these results suggest that rural households benefited substantially from municipal resource windfalls, increasing their consumption of basic goods and services. This greater spending was likely financed primarily by higher labor earnings (though standing at 0.16, the rental income elasticity is not significant). More than a third of the increase in earnings was destined to necessities, on average, implying that many rural households were hand-to-mouth consumers.

Notably, we find a reduction in poverty in rural areas. A log-point increase in predicted public expenditures reduces by 11 percentage points the probability of a household to be poor, as opposed to falling above the local poverty line (column (8)). Compared with the initial mean, this effects translates into a 22.9% decline in poverty. Among households falling below the poverty line, we find a negative but insignificant effect on being extremely poor (Table E8, column (1)).

When examining urban areas (refer to Table E6), a different picture emerges. Compared to rural areas, the income elasticity is much lower, at 0.10. Additionally, the consumption elasticity becomes negative, standing at -0.03, coming from a decrease in food, durables and non-durables expenditures (mostly from healthcare and leisure activities). Wage-employment opportunities often include health insurance benefits, thereby reducing out-of-pocket healthcare costs, alongside reductions in time for recreational activities. Instead, income gains appear directed towards acquiring assets, evidenced by a 3-percentage-point rise in homeownership likelihood.¹⁶ Notably, urban areas also experience a 2-percentage-point increase in poverty rates. However, when looking at the dynamic effects, past resource windfalls reduce poverty for both rural and urban areas (Table E1).

Despite the increase in food demand in rural areas, we find no evidence of strong inflationary pressures, with local food inflation at -0.014% (Table E4, Panel C), -0.018% for less tradable goods and 0.007% for more tradable goods. Although there is no increase in homeownership, we find a housing value elasticity of 0.24, which aligns with rural households —most being agricultural microenterprises— investing in land, as shown in Table 7.

¹⁶Access to mortgages and credit for house refurbishments was severely limited during the study period, with rates at 1% for rural households and 4% for urban households. Consequently, the majority of households purchased their homes outright with cash.

Table 8: Rural economies (2SLS)

	Income (ln)	Consumption (ln)					Assets	Poverty
	(1)	Total (2)	Food (3)	Rent (4)	Durables (5)	Non-dur (6)	House (7)	(8)
Public expenditure (ln)	0.60*** (0.21)	0.12** (0.05)	0.10* (0.05)	0.18*** (0.07)	-0.02 (0.07)	0.12 (0.07)	-0.01 (0.02)	-0.11*** (0.04)
AR <i>p</i> -values	0.00	0.01	0.03	0.00	0.74	0.08	0.65	0.00
<i>F</i> -stat	19.22	33.07	33.22	33.07	32.92	32.84	33.07	33.07
Mean (initial)	4.64	5.51	5.07	2.81	2.09	3.77	0.86	0.73
Individuals	80162	85155	84999	85155	84790	84794	85155	85155
Districts	1013	1028	1028	1028	1028	1028	1028	1028
Level of analysis	IND	HH	HH	HH	HH	HH	HH	HH

Notes. Estimated effects of public expenditures on the following outcomes by columns: (1) Income: deflated income for individuals reporting receiving income in logs; (2)-(6) Consumption: deflated household consumption per equivalent adult in logs, per category. Consumption in non-durables include clothing, healthcare and personal care, transport and telecommunications, leisure and others; (7) House: indicator variable equal to one if owns the dwelling, and zero if not; (8) Poverty: indicator variable equal to one if the household's consumption of basic goods falls below the local poverty line, and zero if not. All coefficients correspond to 2SLS estimates using resource windfalls as an instrument for public expenditures, following Equation 2. All regressions include district and year two-way fixed effects, and control for household characteristics. Coefficients in columns (1) and (2) correspond to monetary values in real terms. Sample restricted to rural areas.

5 Implications

To quantify our findings in terms of output multiplier, we conduct a "macro" exercise and estimate the effect of resource windfalls on local real GDP, relative to the amount transferred to municipalities. Due to our focus on governmental transfers, we estimate a purchase multiplier.

We use two alternative sources of district GDP. First, we impute district GDP for each year by weighting the regional GDP from the official Peruvian national accounts with the district's share of the total regional nightlight value from the harmonized global night-time light dataset developed by [Li et al. \(2020\)](#).¹⁷ Second, we rely on [Seminario and Palomino \(2018\)](#)'s dataset, the only official imputation for GDP in Peru, which in addition adjusts for population density.

The estimated effects are presented in Table E7, following Equation 4.1, with all monetary values in real terms (2007 USD). We adjust for transfer persistence and focus on contemporaneous effects. We first reject a negative multiplier on real GDP, an important test to alleviate concerns that local prices adjusted to offset real effects and crowding out of private output. Furthermore, we test the null hypothesis of a multiplier equal to 1, which has been the central goal of recent research on the fiscal multiplier,

¹⁷The value of nightlights within boundaries is the sum of all the nightlight value of all pixels within a spatial polygon.

since otherwise it would imply no additional output generated besides the influx of resources from government expenditures. With both data sources, we find evidence of a multiplier higher than 1, particularly when dealing with outliers by winsorizing values at the top 10 percentile (as in Table 1). Using our preferred specification dealing with outliers, we find that for every dollar in resource windfalls, an additional USD 2.79–3.86 are generated in the local economy through private spending and investment, assuming a closed local economy.

Our estimates are slightly larger in magnitude than fiscal spending multipliers estimated in the formal sector of Brazil (2.0) (Corbi et al., 2018) and derived from cross-sectional US policy variation from a range of studies (1.5–2.0) (Chodorow-Reich, 2019), as well as transfer multipliers in the US like that of Pennings (2021)’s for permanent transfers to old-age pensioners in the U.S (0.9–1.9). Our output multiplier is closer to Colonnelli and Prem (2021) who computes purchase multipliers ranging 1.46–4.60 from anti-corruption spillovers in Brazil. Our estimates are also closer to transfer multipliers estimated from cash transfers to households, such as the case of Egger et al. (2022) in rural Kenya (2.5–2.8) and Gerard et al. (2021) (1.5–2.6) in Brazil.

One plausible, albeit speculative, possibility is that existence of slack may help account for the large fiscal multiplier we estimate (Lewis, 1954). Overall, our findings indicate that the multiplier was driven by an increase in the *employment* of factors of production rather than their *utilization*. The resource windfalls generated more employment, rather than more hours of work, investment-led responses in the form of capital expansion (more business premises for entrepreneurs and houses in urban areas), and land acquisition (greater landholdings for farmers).

We next discuss welfare implications. Since output is not social welfare, multipliers need not be sufficient statistics for optimal policy. Based on Egger et al. (2022)’s framework, there are two broad channels through which transfers can affect household’s utility.

First, transfers may change market outcomes that affects choices and output, and thereby showing in the fiscal multiplier. The increase in real output reflects an increase in the employment of factors of production, both with an opportunity cost. For labor, it is the value of forgone leisure, for capital it is the interest rate, and for land, it is the foregone present consumption in the case of renting the landholding, or the environmental degradation of previously unused land.

The distribution of benefits is crucial for welfare, especially if we place greater value on expanding the budget sets of poorer households. Although transfers were allocated to municipalities, general equilibrium effects show that the benefits primarily reached the poorest residents living in disadvantaged rural areas. Distributional effects could also work through prices. While there is no evidence of overall inflationary pressures, increases in housing prices mean that there was some value transferred from tenants to land owners.

Second, inter-government transfers may change behaviours that affect a household's utility without appearing in the multiplier. For this, we examine impacts on a range of indices capturing well-being. Although insignificant, we observe small improvements in female empowerment, dwelling and living quality, and sanitation practices in rural areas (Table E8).

6 Conclusion

This paper investigates how transfers affect local economies by studying Peruvian municipalities between 2006 and 2018. We leverage quasi-exogenous variations in resource windfalls in non-extractive districts, resulting from the redistribution of natural tax revenues, following a rule established by the central government, and shocks to prices in commodities extracted within the same aggregate jurisdiction (i.e., districts in the same province or region where extractive activity takes place in another district).

We provide evidence that the extent to which transfers can generate a sizable fiscal multiplier depends on how funds are used, which type of workers are targeted by the labor demand shock from the public sector, and how much slack in factors of production exists in the local economy.

In line with the resource windfalls being ring-fenced for public investment, we find an increase in public spending mainly through investments in public infrastructure, procurement of goods and services, and hiring of municipal workers, particularly low-skilled workers employed in the construction of public works.

When exploring labor markets, we observe increases in employment and earnings across various industries that do not directly serve local municipalities, particularly agriculture. Additionally, by type of occupation, we notice significant positive effects in self-employment and unpaid work. Rural areas experience the most substantial benefits,

resulting in increased income and consumption, as well as reduced poverty. Given that rural households are often production units, they benefit from the rising prices of local agricultural goods.

A couple of findings raise concerns regarding the potential of fiscal transfers to unlock economic development. Firstly, despite a notable increase in the number of infrastructure projects initiated, we observe only a minor effect on the rate of completion. Unfinished projects have been found to incur high social costs, especially if municipalities halt or abandon them mid-construction ([Bancalari, 2024](#)). Thus, it remains crucial to fully grasp the constraints and incentives faced by local policymakers when implementing such projects. Drawing from studies by [Monteiro and Ferraz \(2012\)](#) and [Caselli and Michaels \(2013\)](#), further investigation is necessary to gauge the extent to which corruption and limited government capacity may limit the potential for fiscal multipliers in LMICs.

Finally, many of the jobs created by municipalities in our study are fixed-term and tied to projects. As [Gadenne \(2015\)](#) and [Martinez \(2023\)](#) highlight, relying on transfers instead of building taxation capacity has important implications for the quality of service delivery. The volatile nature of natural tax revenues highlights the need for more research in order to understand the extent to which municipal resource windfalls are able to unlock the development potential of these low-income areas in the long-run.

References

- Agüero, J. M., Felipe Balc Azar B, C., Maldonado, S., and Nopo, H. (2021). The value of redistribution: Natural resources and the formation of human capital under weak institutions. *Journal of Development Economics*, (148):102:581.
- Albrecht, J., Robayo-Abril, M., and Vroman, S. (2018). Public-sector Employment in an Equilibrium Search and Matching Model. *The Economic Journal*, 129(617):35–61.
- Angelucci, M. and De Giorgi, G. (2009). Indirect Effects of an Aid Program: How Do Cash Transfers Affect Ineligibles' Consumption? *American Economic Review*, 99(1):486–508.
- Aragón, F. M. and Rud, J. P. (2013). Natural Resources and Local Communities: Evidence from a Peruvian Gold Mine. *American Economic Journal: Economic Policy*, 5(2):1–25.
- Aragón, F. M. and Winkler, H. (2023). The long-term impact of a resource-based fiscal windfall: Evidence from the peruvian canon. *Resources Policy*, 87:104305.
- Bancalari, A. (2024). The Unintended Consequences of Infrastructure Development. *Review of Economics and Statistics*, (Forthcoming).
- Banerjee, A., Karlan, D., Trachtman, H., and Udry, C. R. (2021). Does Poverty Change Labor Supply? Evidence from Multiple Income Effects and 115,579 Bags. Technical report.
- Borusyak, K., Hull, P., and Jaravel, X. (2021). Quasi-Experimental Shift-Share Research Designs. *The Review of Economic Studies*, 89(1):181–213.
- Breza, E., Kaur, S., and Shamdasani, Y. (2021). Labor rationing. *American Economic Review*, 111(10):3184–3224.
- Caselli, F. and Michaels, G. (2013). Do Oil Windfalls Improve Living Standards? Evidence from Brazil. *American Economic Journal: Applied Economics*, 5(1):208–238.
- Cavalcanti, T. and Santos, M. (2020). (MIS)Allocation Effects of an Overpaid Public Sector. *Journal of the European Economic Association*, 19(2):953–999.
- Chodorow-Reich, G. (2019). Geographic cross-sectional fiscal spending multipliers: What have we learned? *American Economic Journal: Economic Policy*, 11(2):1–34.
- Colonnelli, E. and Prem, M. (2021). Corruption and firms. *The Review of Economic Studies*, 89(2):695–732.
- Congreso de la Republica del Peru (2019). Transfers by type of canon, royalties, participations and other. Technical report, Unidad Técnica “Observatorio de la Descen-

- tralización” del Congreso de la Republica de Peru, Lima, Peru.
- Corbi, R., Papaioannou, E., and Surico, P. (2018). Regional Transfer Multipliers. *The Review of Economic Studies*, 86(5):1901–1934.
- Egger, D., Haushofer, J., Miguel, E., Niehaus, P., and Walker, M. (2022). General Equilibrium Effects of Cash Transfers: Experimental Evidence From Kenya. *Econometrica*, 90(6):2603–2643.
- Gadenne, L. (2015). Tax Me, but Spend Wisely? Sources of Public Finance and Government Accountability. *American Economic Journal: Applied Economics*, 9(1):274–314.
- Gerard, F., Naritomi, J., and Silva, J. (2021). Cash Transfers and the Local Economy: Evidence from Brazil. *Centre for Economic Policy Research Discussion Papers*, DP16286.
- Girsberger, E. M. and Meango, R. (2021). The Puzzle of Educated Unemployment in West Africa.
- Imbert, C. and Papp, J. (2015). Labor Market Effects of Social Programs: Evidence from India’s Employment Guarantee. *American Economic Journal: Applied Economics*, 7(2):233–63.
- Jaimovich, E. and Rud, J. P. (2014). Excessive public employment and rent-seeking traps. *Journal of Development Economics*, 106:144–155.
- Keynes, J. M. (1936). *The General Theory of Employment, Interest and Money*. Macmillan.
- Lewis, W. A. (1954). Economic development with unlimited supplies of labour. *The Manchester School*, 22(2):139–191.
- Li, X., Zhou, Y., and Zhao, M. (2020). A harmonized global nighttime light dataset 1992–2018. *Nature Scientific Data*, 168.
- Loayza, N. and Rigolini, J. (2016). The local impact of mining on poverty and inequality: Evidence from the commodity boom in peru. *World Development*, 84:219–234.
- Maldonado, S. and Ardanaz, M. (2023). Natural resource windfalls and efficiency in local government expenditure: Evidence from peru. *Economics & Politics*, 35(1):28–64.
- Martinez, L. (2023). Natural Resource Rents, Local Taxes, and Government Performance: Evidence from Colombia. *Review of Economics and Statistics*, page forthcoming.
- Ministerio de Economía y Finanzas (2016). Municipal Finances. Technical report, Ministerio de Economía y Finanzas - Dirección General de Contabilidad Pública,

- Lima, Peru.
- Monteiro, J. and Ferraz, C. (2012). Does Oil Make Leaders Unaccountable? Evidence from Brazil's offshore oil boom.
- Mullahy, J. and Norton, E. C. (2024). Why transform y ? the pitfalls of transformed regressions with a mass at zero*. *Oxford Bulletin of Economics and Statistics*.
- Muralidharan, K., Niehaus, P., and Sukhtankar, S. (2023). General Equilibrium Effects of (Improving) Public Employment Programs: Experimental Evidence from India. *Econometrica*, 91:1261–1295.
- Nakamura, E. and Steinsson, J. (2014). Fiscal stimulus in a monetary union: Evidence from us regions. *American Economic Review*, 104(3):753–92.
- Pennings, S. (2021). Cross-region transfer multipliers in a monetary union: Evidence from social security and stimulus payments. *American Economic Review*, 111(5):1689–1719.
- Roth, J. and Chen, J. (2024). Logs with zeros? Some problems and solutions. *The Quarterly Journal of Economics*, (Forthcoming).
- Rud, J. P. and Trapeznikova, I. (2020). Job Creation and Wages in Least Developed Countries: Evidence from Sub-Saharan Africa. *The Economic Journal*, 131(635):1331–1364.
- Seminario, B. and Palomino, L. (2018). Estimacion del pib a nivel subnacional utilizando datos satelitales de luminosidad. Technical Report 20, Documento de Investigacion de la Universidad del Pacifico.
- State Comptroller of Peru (2014). *Study of the Decentralization Process in Peru*. Apoyo Consultoria and United Nations Development Program.
- Walker, M., Shah, N., Miguel, E., Egger, D., Soliman, F. S., and Graff, T. (2024). Slack and economic development. Technical Report 33055, NBER Working Paper.
- World Bank (2023). *World Development Indicators*.

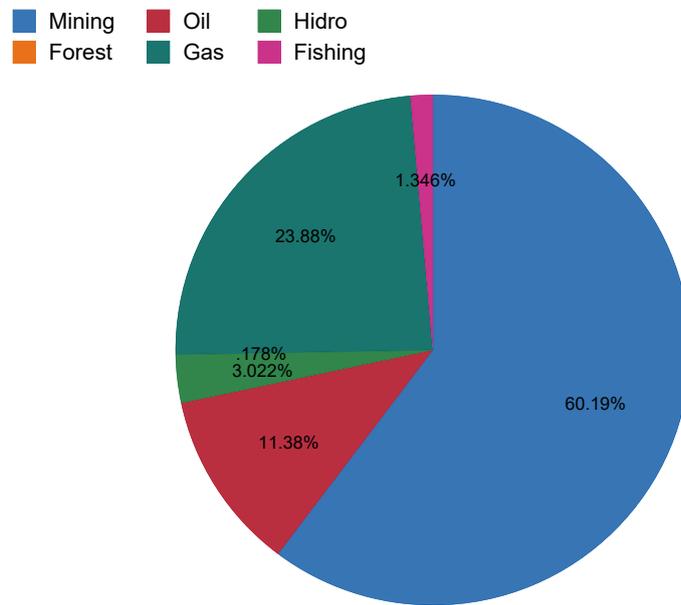
APPENDIX

Resource windfalls, public expenditure and local economies: Evidence from municipalities in Peru

Antonella Bancalari and Juan Pablo Rud

A Background

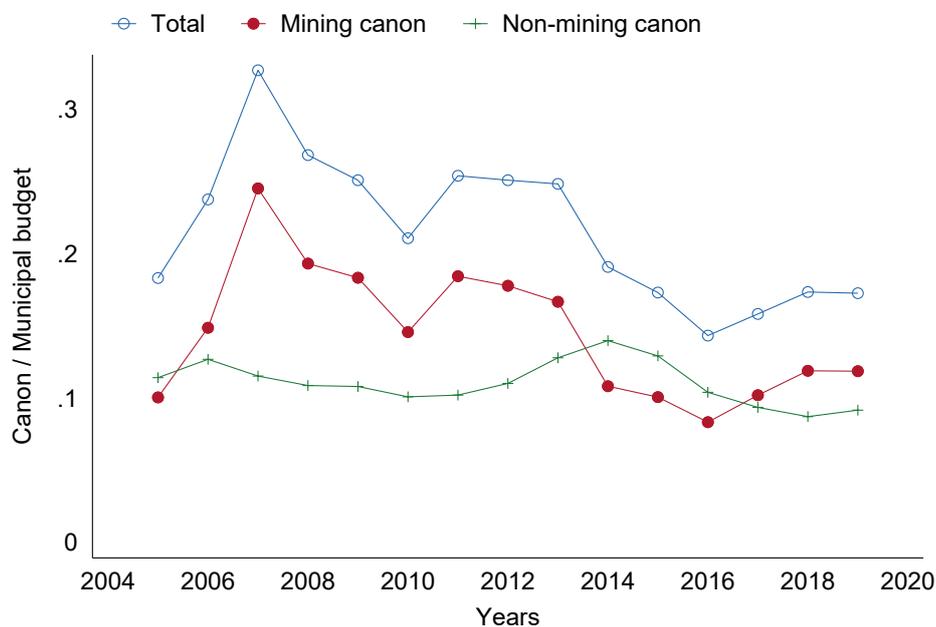
Figure A1: Resource windfalls, by type of activity (2006-2018)



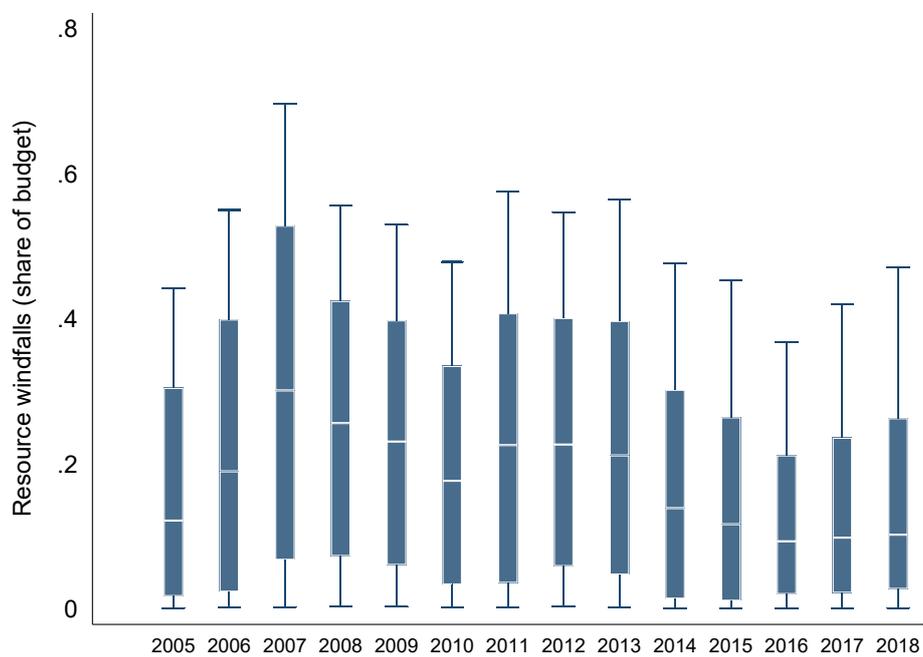
Source: Author's own calculation using data on transfers to local governments and municipal budgets from the Ministry of Economy and Finance's in Peru, SIAF. Distribution of total resource windfalls received by non-extractive municipalities by type between 2006 and 2018.

Figure A2: Share of resource windfalls over total budget

(A) Mean share, by type of canon

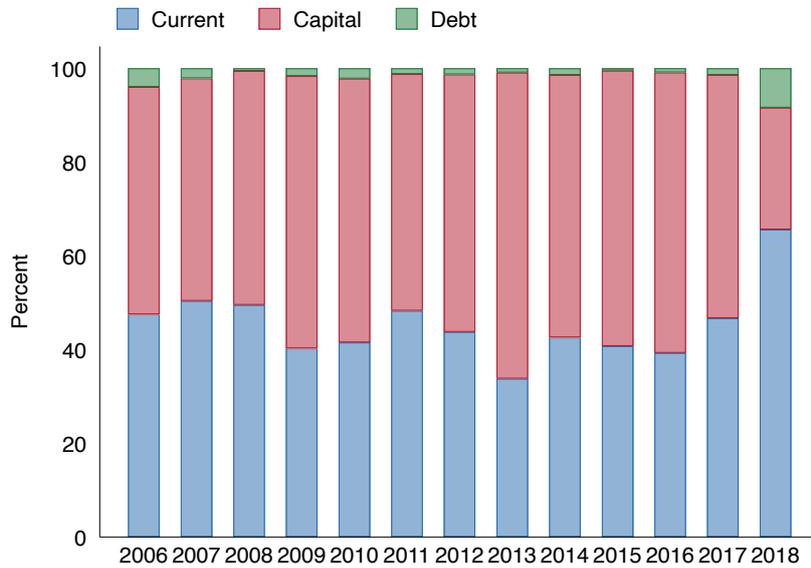


(B) Distribution of the share

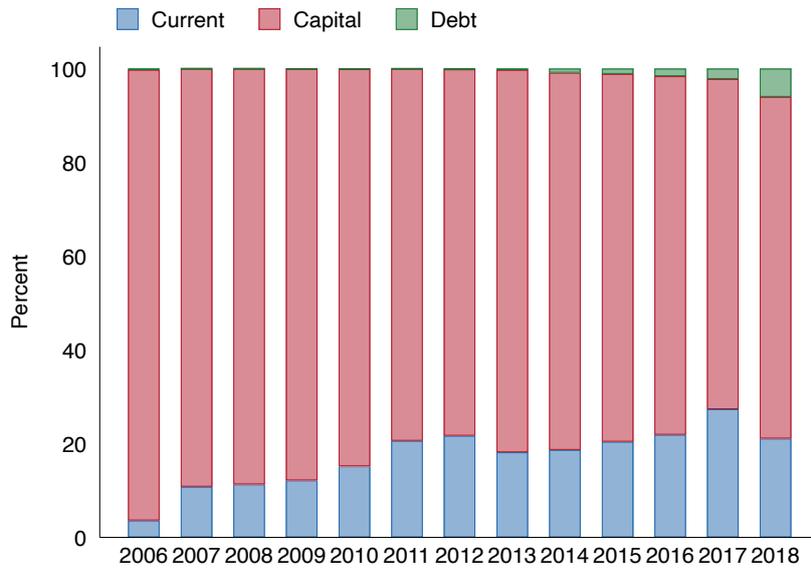


Notes. Author's own calculation using data on municipal budgets from the Ministry of Economy and Finance's in Peru, SIAF. Sample restricted to non-extractive districts. In Panel (B), the upper spike denotes the top 10 percentile and the bottom the bottom 10 percentile, while the upper border of the box denotes the percentile 75 and the bottom the percentile 25. The middle white line in the box denotes the median.

Figure A3: Municipal expenditures by general categories



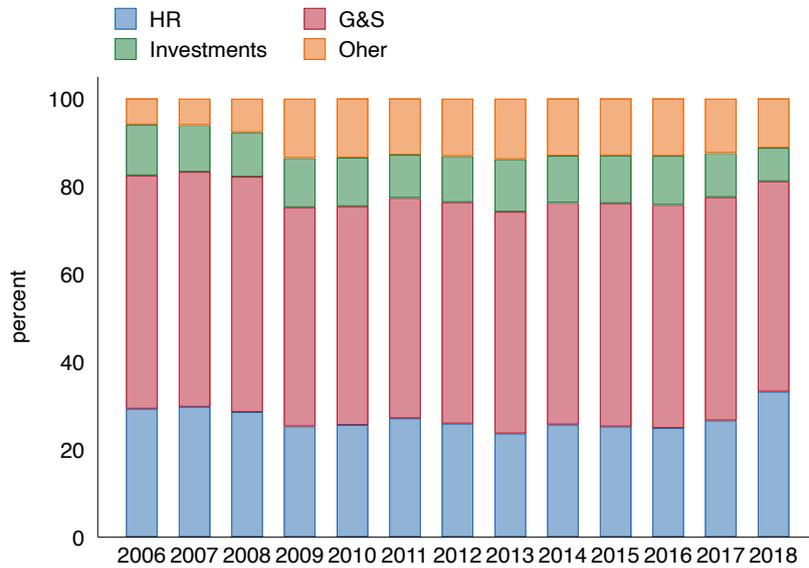
(A) All sources



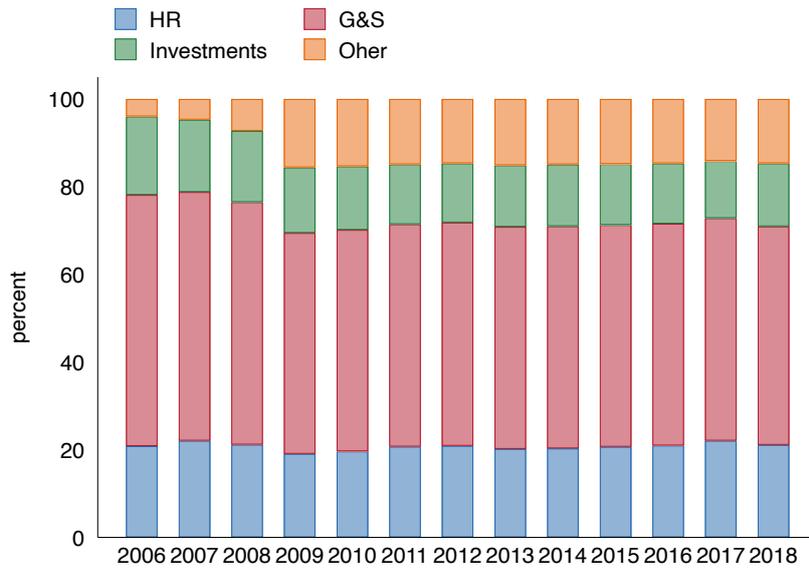
(B) Resource windfalls from canon

Notes. Author's own calculation using data on municipal budgets from the Ministry of Economy and Finance's in Peru, SIAF. Sample restricted to non-extractive districts.

Figure A4: Municipal expenditures by specific categories



(A) All sources



(B) Resource windfalls from canon

Notes. Author's own calculation using data on municipal budgets from the Ministry of Economy and Finance's in Peru, SIAF. Sample restricted to non-extractive districts.

Table A1: Wage premium in public sector

	Earnings (1)
Public employment	0.66*** (0.02)
Education: some secondary	0.36*** (0.01)
Education: some superior	0.81*** (0.01)
Female	-0.34*** (0.01)
Married	0.22*** (0.01)
Is HH head	0.18*** (0.01)
HH size	0.04*** (0.00)
Observations	211074

Notes. All regressions include district and year two-way fixed effects, and control for household characteristics. Standard errors clustered at the district level in parentheses. * Significant at ten percent; ** significant at five percent; *** significant at one percent.

Table A2: Description of socio-demographics and labor markets by 2005

	Mean (1)	SD (2)	Median (3)	Min (4)	Max (5)
Panel A: District-level					
Population density per sq km	91.31	522.49	18.72	0.09	4423.03
Population	14838.90	44735.23	4164.00	88.00	812656.00
Rural population	0.53	0.31	0.59	0.00	0.99
Sewerage connectivity	0.20	0.24	0.11	0.00	1.00
Piped water connectivity	0.54	0.28	0.60	0.00	1.00
Head with secondary education	0.20	0.14	0.16	0.01	0.80
Electricity connectivity	0.55	0.25	0.58	0.00	1.00
Unmet basic needs	0.57	0.24	0.59	0.01	1.00
Panel B: Individual-level					
Employed	0.64	0.48	1.00	0.00	1.00
Female	0.42	0.49	0.00	0.00	1.00
Educational attainment:					
Below or completed primary	0.43	0.49	0.00	0.00	1.00
Below or completed secondary	0.38	0.49	0.00	0.00	1.00
Tertiary	0.19	0.39	0.00	0.00	1.00
Age	38.37	16.03	37.00	14.00	95.00
Earnings, annualised, deflated	6973.99	9511.85	4674.26	24.37	218279.13
Informal	0.87	0.34	1.00	0.00	1.00
Poor	0.52	0.50	1.00	0.00	1.00
Rural area	0.39	0.49	0.00	0.00	1.00
Observations	59725				

Notes. In Panel A, the sample is restricted to not extractive districts with SIAF data that are identified in the 2005 Census. All characteristics from the second row onwards are measured as the share of households in the district. In Panel B, the first row includes all individuals surveyed, while the rest is focused on those actively working.

Table A3: Description of local labor markets by 2005

	Employed	Public	Private			
	(1)	(2)	Employer	Wage-employed	Self-employed	Unpaid work
	(1)	(2)	(3)	(4)	(5)	(6)
Female	0.42 (0.49)	0.45 (0.50)	0.23 (0.42)	0.33 (0.47)	0.39 (0.49)	0.69 (0.46)
Educational attainment:						
Below or completed primary	0.43 (0.50)	0.07 (0.26)	0.44 (0.50)	0.26 (0.44)	0.57 (0.50)	0.57 (0.50)
Below or completed secondary	0.38 (0.49)	0.22 (0.41)	0.37 (0.48)	0.50 (0.50)	0.33 (0.47)	0.37 (0.48)
Tertiary	0.19 (0.39)	0.71 (0.45)	0.20 (0.40)	0.24 (0.43)	0.10 (0.31)	0.06 (0.24)
Age	38.44 (16.01)	39.60 (10.53)	47.17 (14.90)	32.14 (13.02)	44.59 (15.42)	32.01 (17.31)
Earnings, annualised, deflated	6973.99 (9511.85)	12137.09 (10114.48)	2795.09 (4008.97)	6113.38 (9220.67)	1607.65 (2101.06)	. (.)
Informal	0.87 (0.34)	0.00 (0.00)	0.88 (0.33)	0.85 (0.35)	0.99 (0.11)	1.00 (0.00)
Poor	0.55 (0.50)	0.22 (0.41)	0.36 (0.48)	0.47 (0.50)	0.62 (0.49)	0.77 (0.42)
Rural area	0.41 (0.49)	0.15 (0.35)	0.38 (0.49)	0.25 (0.43)	0.46 (0.50)	0.69 (0.46)

Notes. Sample restricted to individuals surveyed in non-extractive districts.

B Definition of variables

B.1 Definition of outcome variables

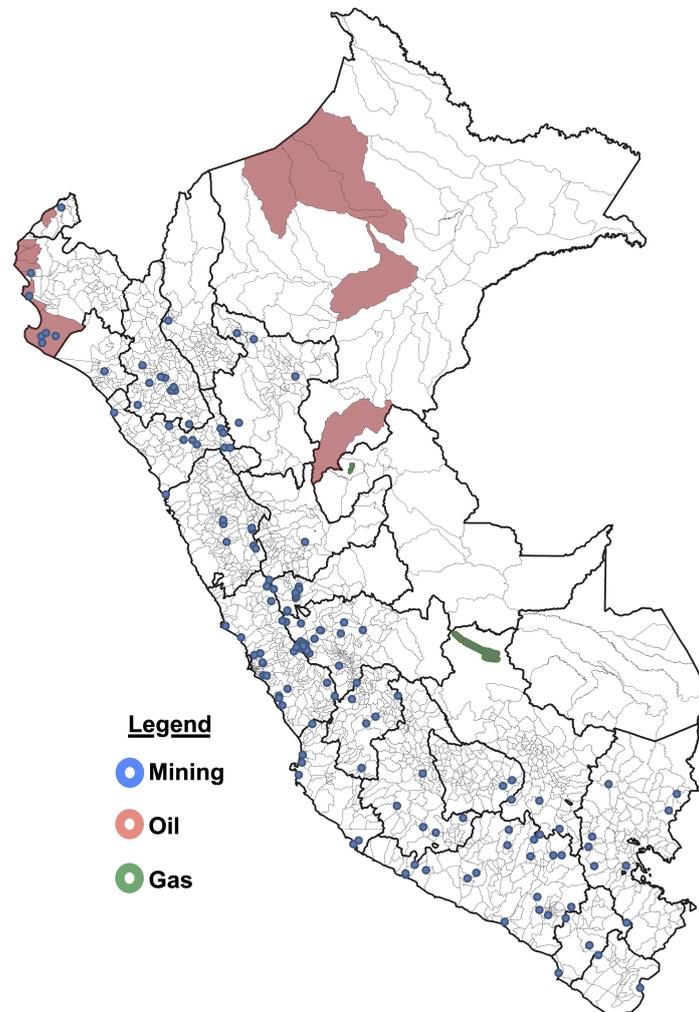
Variable	Description	Source	Years
Municipal level			
Public expenditure	Municipal expenditure in real terms (2007 USD or logs). Split by capital or current, and by human resources (HR) or goods and services (G&S)	SIAF	2006-2018
Started	Number of public projects started by the municipality. 'Productive' projects include agricultural, transport and telecommunications (TTC), housing, water and sanitation (WASH), energy and other physical infrastructures. 'Social capital' projects include education, culture and recreation, safety and security, social protection and health.	InfObras.	2011-2018
Completed/active	Number of public projects completed over those still actively implemented by the municipality (started but unfinished).	InfObras	2011-2018
HR	Number of municipal human resources by occupation. 'Support' includes both administrative assistants and blue-collar workers (e.g. construction workers and supervisors).	RENAMU	2004-2018
HR - permanent (share)	Share of municipal human resources in permanent rather than fixed-term contract.	RENAMU	2004-2018
Individual level			
Employed	Indicator variable equal 1 if individual had any job during the previous week, and zero otherwise. Split in services, agriculture and construction or manufacturing (cons/manuf) sectors using ISIC codes.	ENAH0	2006-2018
Public	Indicator variable equal 1 if individual had a job in the public sector during the previous week, and zero if inactive.	ENAH0	2006-2018
Private	Indicator variable equal 1 if individual had a job in the private sector during the previous week, and zero if inactive.	ENAH0	2004-2018
Hours	Number of hours worked by individual in the previous week, conditional on being active.	ENAH0	2006-2018
Second job	Indicator variable equal 1 if individual has a second job, and zero if working only one job, conditional on being active.	ENAH0	2006-2018
Informal	Indicator variable equal 1 if individual works in the informal sector, and zero otherwise, conditional on being active.	ENAH0	2006-2018
Earnings (ln)	Deflated earnings in natural logs, for those that receive earnings. Split in services, agriculture and construction or manufacturing (cons/manuf) sectors using ISIC codes.	ENAH0	2006-2018
Employer	Indicator variable equal to one if in main occupation employs people, and zero if inactive.	ENAH0	2006-2018
Wage-employed	Indicator variable equal to one if main occupation is wage-employed, and zero if inactive.	ENAH0	2006-2018
Self-employed	Indicator variable equal to one if main occupation is self-employed, and zero if inactive.	ENAH0	2006-2018
Unpaid work	Indicator variable equal to one if main occupation is unpaid work in family business, and zero if inactive.	ENAH0	2006-2018
Revenues (ln)	Value of production sold in 2007 USD prices and natural logs	ENAH0	2006-2018
Productivity (ln)	Revenue per worker	ENAH0	2006-2018
Owns business premise	Indicator variable equal 1 if entrepreneur owns its business premise, and zero otherwise.	ENAH0	2006-2018
Owned land	Hectares of land owned by the farmer.	ENAH0	2006-2018
Income (ln)	Deflated income in natural logs for individuals reporting receiving income.	ENAH0	2006-2018

(continued on next page)

Variable	Description	Source	Years
Consumption (ln)	Deflated consumption in natural logs per equivalent adult, total and per category: (1) Food, including food consumed inside and outside the house, (2) Rent, including bills, (3) Durables, including any asset or housing refurbishing, and (4) Non-durables, including clothing, health and personal care, transport and telecommunications, leisure and others.	ENAHO	2006-2018
Poor	Indicator variable equal to one if the household falls below the local poverty line, and zero if not poor.	ENAHO	2006-2018

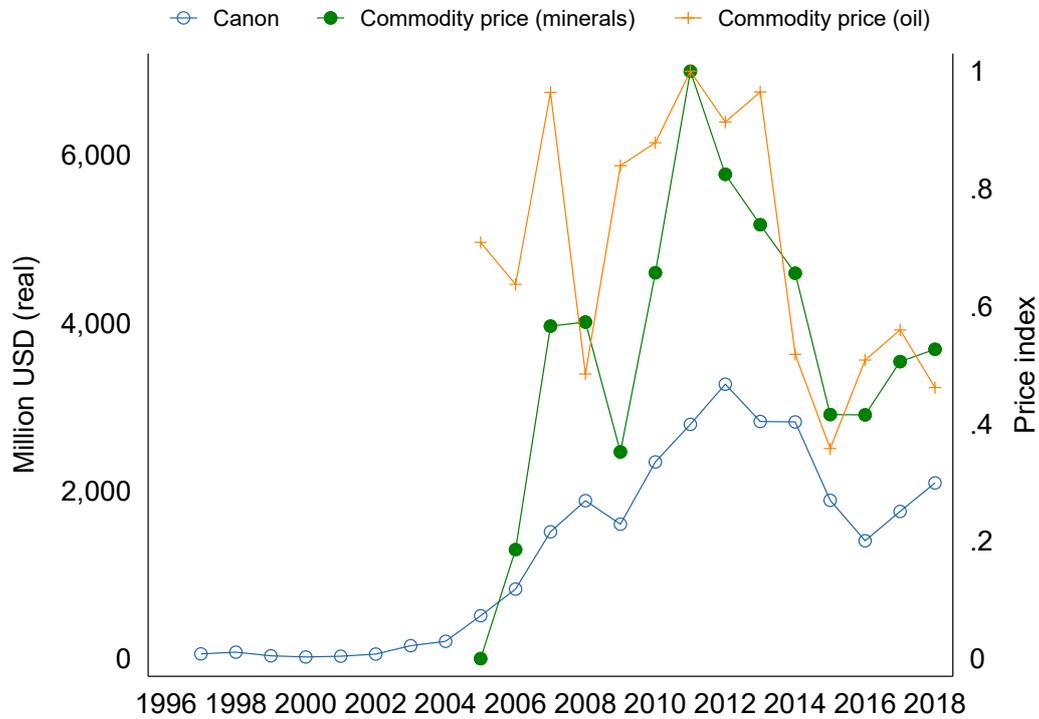
C Empirical strategy

Figure C1: Location of extractive activities



Notes. Map showing the location of the main extractive activities driving 'canon' resources by 2018. Blue dots correspond to mining, cranberry areas to oil and green areas to natural gas extraction. The coast is located in the west, the highlands in the centre and the Amazon in the east. Dark shaded borders mark regional boundaries.

Figure C2: Resource windfalls and commodity prices (2006-2018)



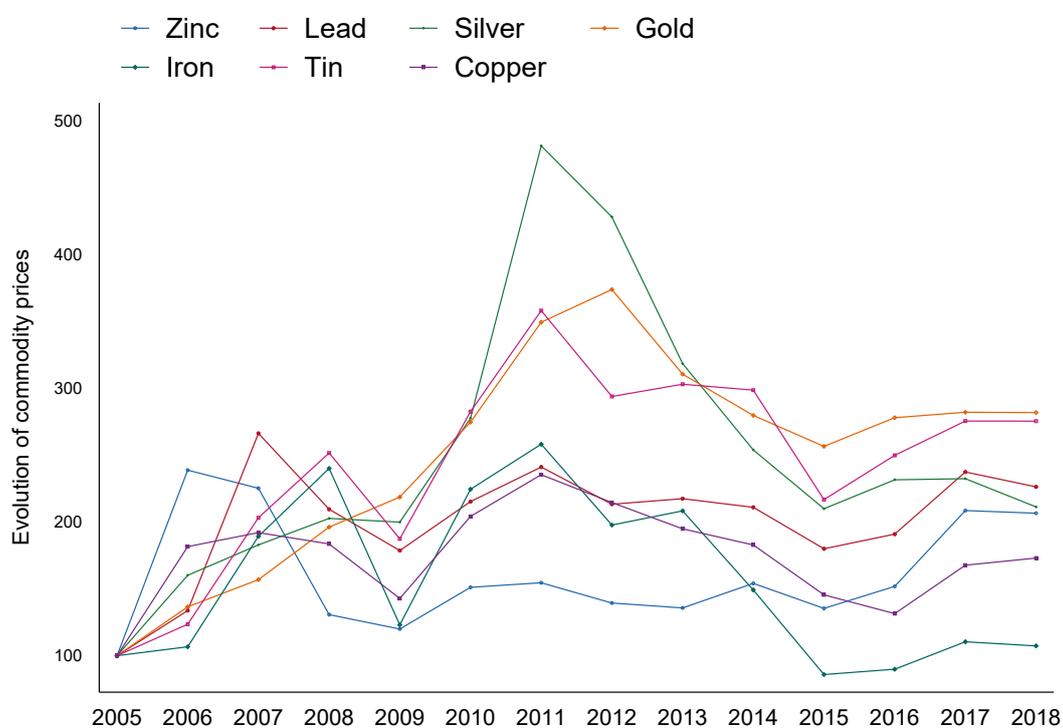
Source: Distribution of total resource windfalls received by non-extractive municipalities by type between 2006 and 2018.

Table C1: Exposure to commodities among non-extractive districts

	(1) In province	(2) In region
Minerals		
Silver	0.40	0.79
Gold	0.35	0.77
Copper	0.31	0.79
Lead	0.27	0.65
Zinc	0.26	0.65
Cadmium	0.03	0.15
Molybdenum	0.03	0.33
Arsenic	0.02	0.21
Manganese	0.01	0.22
Tin	0.01	0.08
Tungsten	0.01	0.08
Bismuth	0.00	0.10
Iron	0.00	0.02
Other		
Oil	0.01	0.07
Gas	0.01	0.06

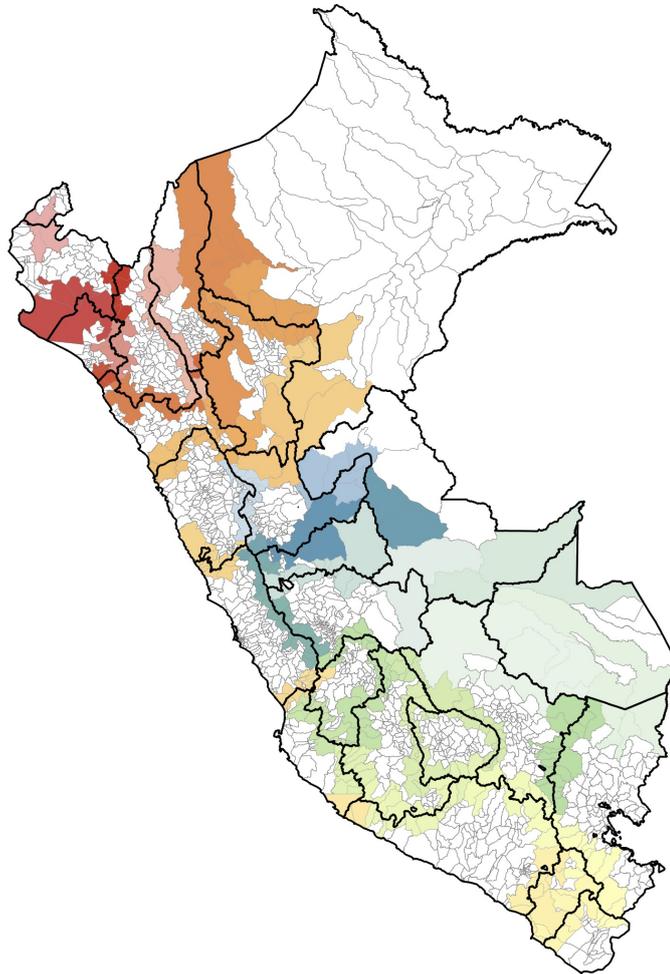
Notes. This table shows the share of non-extractive districts exposed to the extraction of these commodities at any point between 2006 and 2018 in their province (Column 1) or region (Column 2).

Figure C3: Growth in international prices, main minerals extracted in Peru



Source: International prices obtained from Bloomberg.

Figure C4: Bordering districts across regional boundaries



Notes. Shaded districts are those located across regional borders. Each color corresponds to a boundary group.

Table C2: OLS and Reduced-form estimates

	OLS: Effects of public expenditure (ln)				RF: Effects of resource windfalls (ln)			
	β (1)	se (2)	p -value (3)	Obs (4)	β (5)	se (6)	p -value (7)	Obs (8)
Panel A: Municipal								
Taxes (ln)	0.11	0.02	0.00	14053	0.04	0.01	0.00	14053
Loans (ln)	1.14	0.08	0.00	4369	0.10	0.05	0.07	4369
Productive: Started	0.65	0.06	0.00	10910	0.14	0.02	0.00	10910
Productive: Comp/Act	0.23	0.03	0.00	10910	0.03	0.02	0.10	10910
Social cap: Started	0.06	0.01	0.00	10910	0.01	0.01	0.22	10910
Social cap: Comp/Act	0.07	0.01	0.00	10910	0.01	0.01	0.18	10910
HR	14.65	2.23	0.00	18434	5.04	0.98	0.00	18434
HR: Managers	0.22	0.15	0.16	18434	0.08	0.06	0.25	18434
HR: Professional	2.29	0.38	0.00	18434	0.50	0.18	0.01	18434
HR: Technician	2.89	0.99	0.01	18434	0.61	0.33	0.09	18434
HR: Support	9.25	2.08	0.00	18434	3.86	0.87	0.00	18434
HR: Perm (share)	0.01	0.00	0.11	16977	-0.02	0.00	0.00	16977
Panel B: Individual								
Employed	0.01	0.00	0.00	720985	0.01	0.00	0.00	720985
Public	0.01	0.00	0.00	262605	0.00	0.00	0.01	262605
Hours	0.13	0.08	0.14	499577	-0.02	0.06	0.75	499577
Second job	-0.00	0.00	0.61	501454	-0.00	0.00	0.83	501454
Informal	-0.01	0.00	0.00	500856	-0.00	0.00	0.06	500856
Earnings (ln)	0.02	0.00	0.01	211074	0.01	0.00	0.01	211074
Employer	0.00	0.00	0.01	245592	0.00	0.00	0.11	245592
Wage-employed	-0.00	0.00	0.98	375852	0.01	0.00	0.00	375852
Self-employed	0.00	0.00	0.05	413524	0.01	0.00	0.00	413524
Unpaid work	0.02	0.00	0.00	302552	0.02	0.00	0.00	302552
Income (ln)	0.04	0.02	0.04	80162	0.04	0.01	0.00	80162
Consumption (ln)	0.01	0.01	0.40	85155	0.01	0.00	0.02	85155
Poor	-0.01	0.00	0.13	85155	-0.01	0.00	0.01	85155
Extreme poor	0.01	0.01	0.32	42159	-0.00	0.00	0.19	42159

Notes. The estimated effect of public expenditure (ln) on all outcomes presented in column (1) and of resources windfalls in column (5). Standard errors clustered at the district level presented in columns (2) and (6). P -values presented in columns (3) and (7). The effects on income, consumption and poverty are restricted to rural areas. All monetary values in real terms. All regressions include district and year two-way fixed effects.

D Robustness checks

Table D1: 2006-2018 resource windfalls on 2004 municipal HR

	Total (1)	Managers (2)	Professionals (3)	Technicians (4)	Support (5)
Δ 06-18 resource windfalls (ln)	0.05 (0.07)	0.01 (0.01)	0.02 (0.01)	0.04 (0.04)	-0.02 (0.03)
Districts	1445	1445	1445	1445	1445

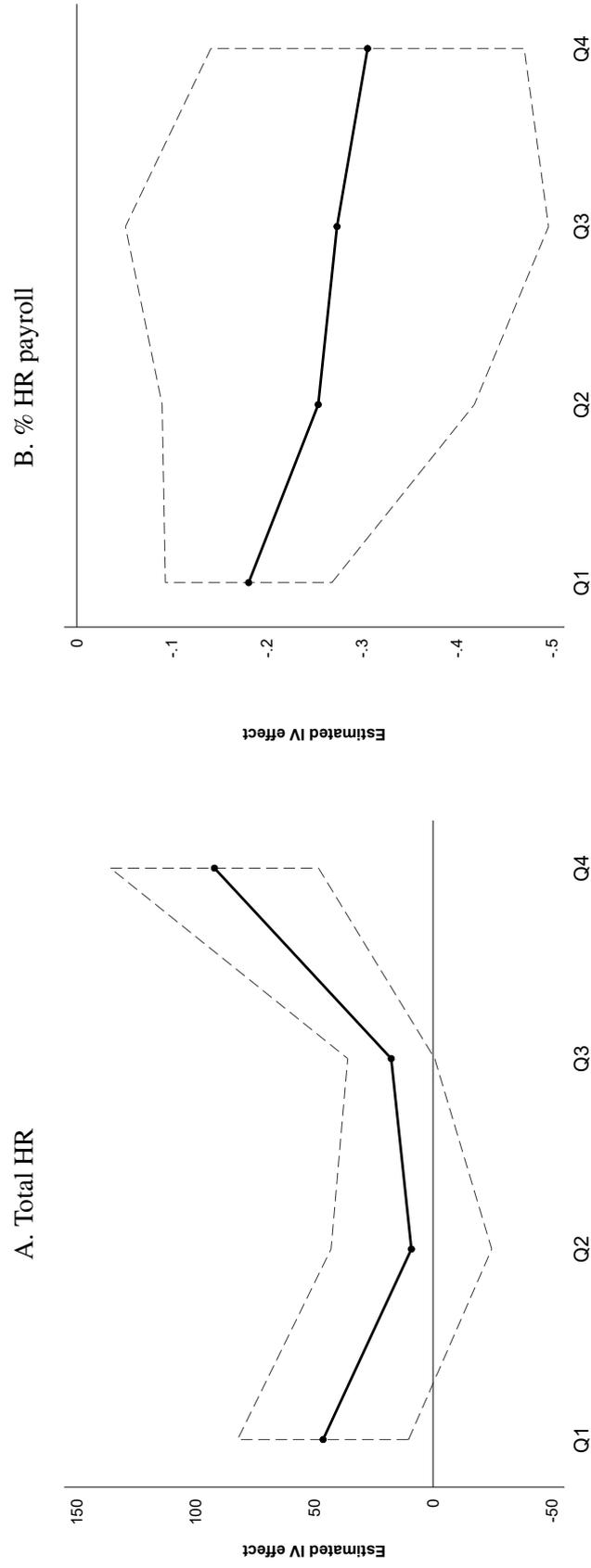
Notes. Δ 06-18 denotes the mean annual growth in resource windfalls between 2006 and 2018. All specifications include province fixed effects.

Table D2: 2006-2018 resource windfalls on 2004 individual outcomes

	Employed (1)	Public (2)	Informal (3)	Earnings (ln) (4)
Δ 06-18 resource windfalls (ln)	0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	0.00 (0.00)
Individuals	48387	19723	31179	11708

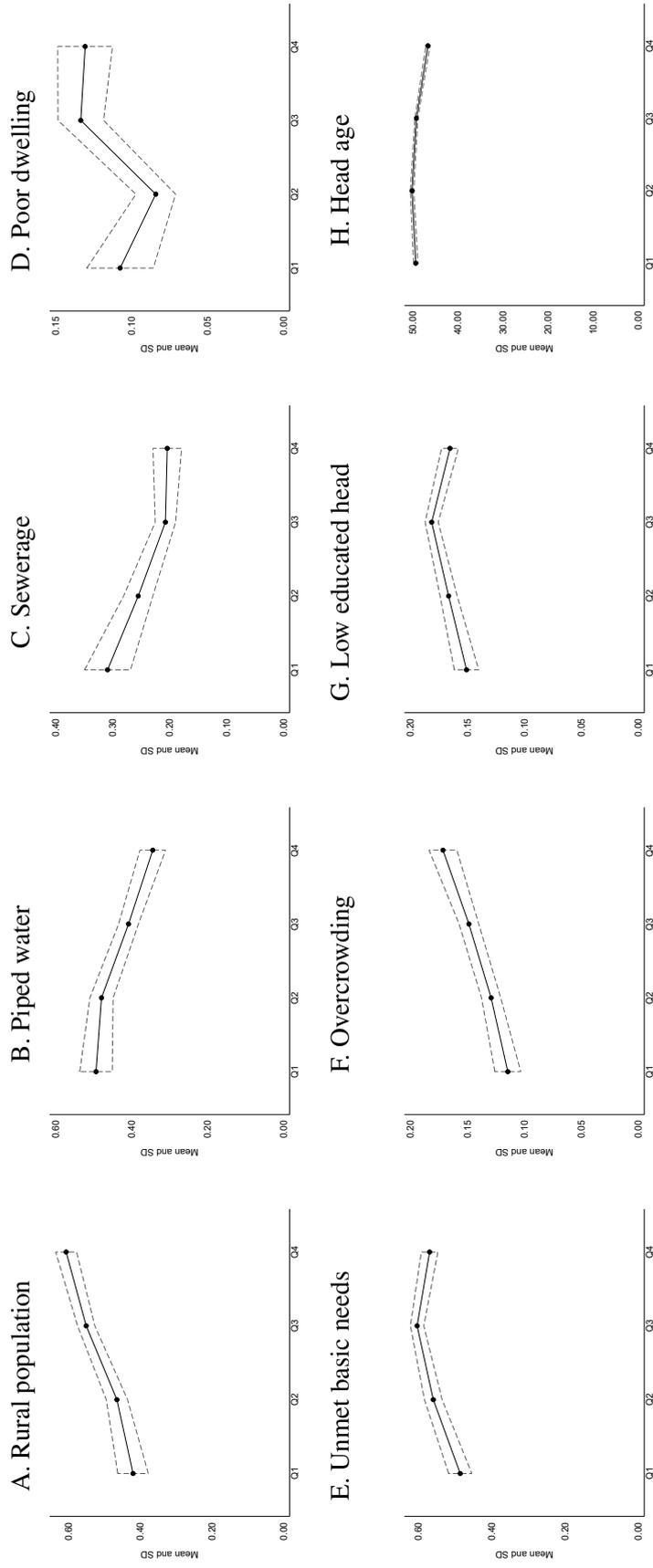
Notes. Δ 06-18 denotes the mean annual growth in resource windfalls between 2006 and 2018. All specifications include province fixed effects.

Figure D1: Heterogenous effects by quartiles of distance to closest mine



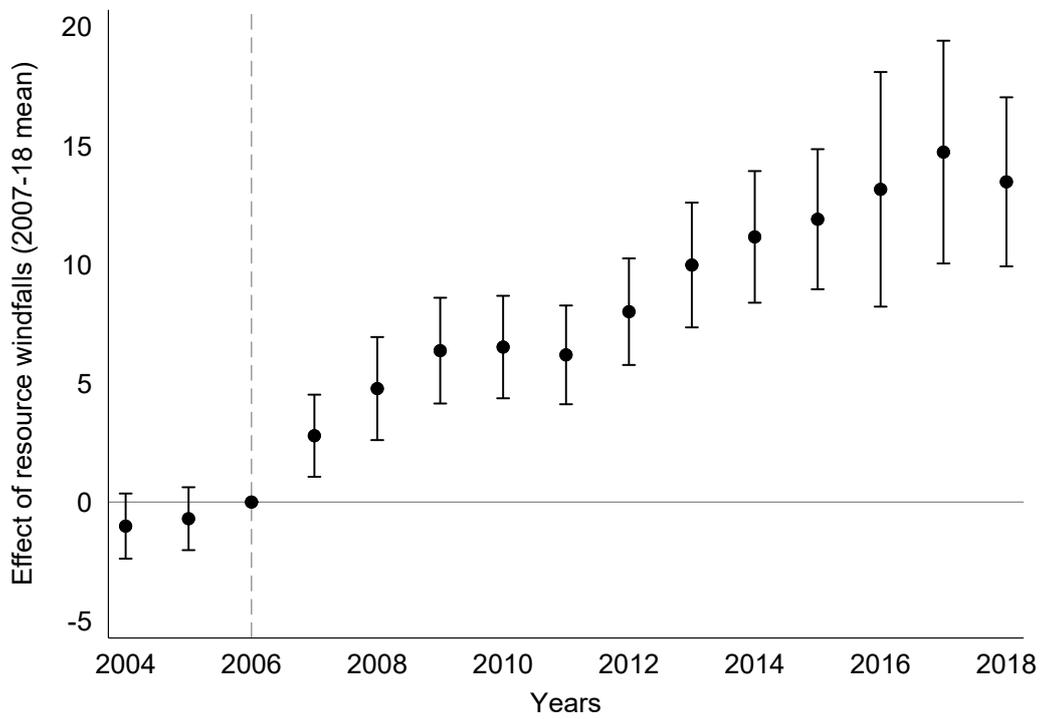
Note. Spikes correspond to 95% confidence intervals. All regressions include district and year two-way fixed effects. Standard errors clustered at the district level. Q1 is below 20 kms; Q2 spans 20–30kms; Q3 spans 30–60 kms; and Q4 is above 60kms. The exact quartiles change slightly across outcomes due to changes in the sample of analysis.

Figure D2: Initial district characteristics (2005 census), by distance to closest mine



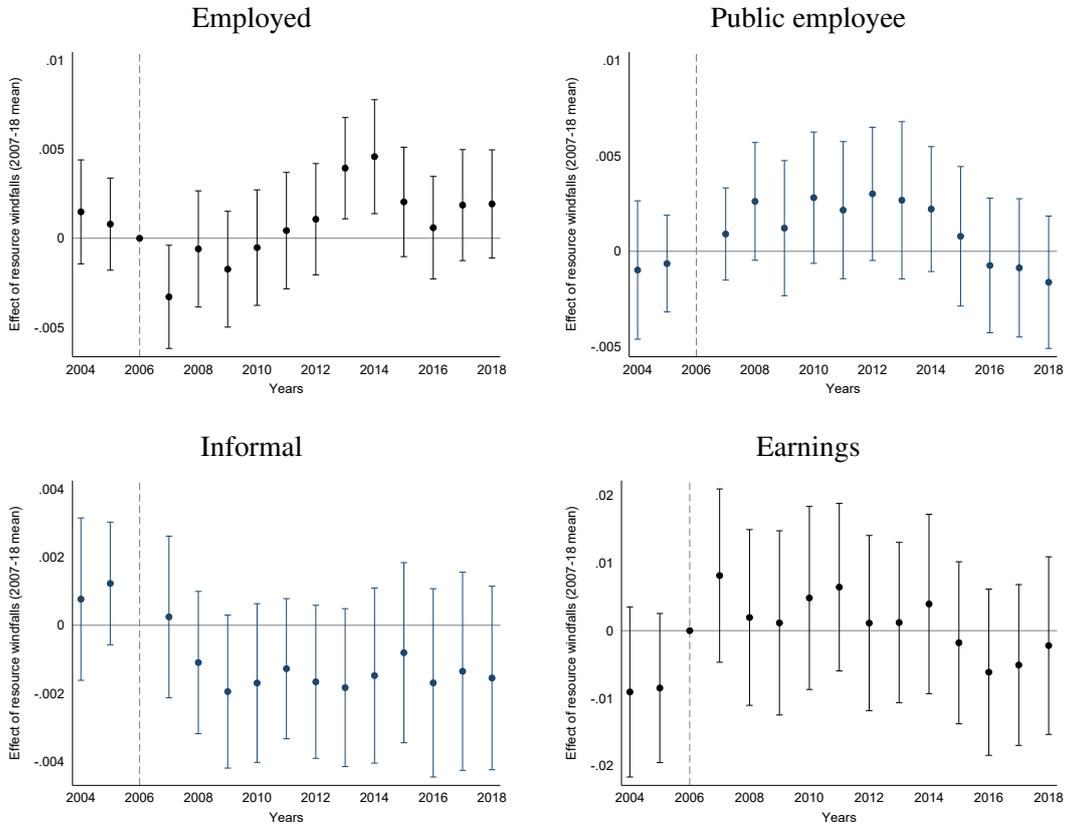
Notes. All data corresponds to the 2005 census. District characteristics are presented as the share of the population in Panel A, as the share of households in Panels B-G, and as the mean across households in Panel H. Q1 is at or below 20 kms; Q2 spans {20 – 35] kms; Q3 spans {35 – 65] kms; and Q4 is above 65 kms.

Figure D3: Event-study – Reduced-form effects on municipal human resources



Notes. Coefficients are plotted along with 95% confidence intervals on the interactions of year dummies with district's 2007-2018 average canon (ln), with 2006 as the reference year. District and year fixed effects are included. Panel data at the municipal-year level from 2004 to 2018.

Figure D4: Event-study – Reduced-form effects on individual outcomes



Notes. Coefficients are plotted along with 95% confidence intervals on the interactions of year dummies with district's 2007-2018 average canon (ln), with 2006 as the reference year. District and year fixed effects are included.

Table D3: Robustness checks (2SLS), municipal outcomes

	Public works		Human resources		
	Productive	Social capital	Total	Support	Permanent (share)
	(1)	(2)	(3)	(4)	(5)
1. Region-year FE	1.95*** (0.40)	0.45* (0.24)	47.07*** (9.38)	36.46*** (8.56)	-0.25*** (0.04)
2. Province-year FE	1.93*** (0.39)	0.44* (0.24)	45.87*** (9.42)	35.71*** (8.59)	-0.25*** (0.04)
3. Poverty-year FE	1.92*** (0.39)	0.49** (0.21)	55.33*** (9.54)	41.90*** (8.66)	-0.23*** (0.04)
4. Boundary-year FE	3.61*** (1.25)	1.50** (0.71)	19.93* (10.90)	8.40 (8.21)	-0.23*** (0.09)
5. Excluding large districts	2.33*** (0.51)	0.75** (0.34)	27.41*** (4.22)	16.26*** (2.73)	-0.33*** (0.06)
6. Excluding oil and gas regions	1.75*** (0.40)	0.37 (0.24)	41.41*** (10.18)	32.51*** (9.36)	-0.26*** (0.04)
7. Distance to closest mine	1.91*** (0.39)	0.46* (0.24)	48.90*** (9.56)	37.37*** (8.57)	-0.25*** (0.04)
8. Simulated IV	0.65 (0.46)	0.34* (0.19)	17.84*** (6.44)	13.83*** (5.14)	-0.05 (0.05)

Notes. ‘Poverty’ stands for unmet basic needs, measured in the 2005 census, and ‘trends’ refer to the characteristics-by-year fixed effects. ‘Boundary FE’ additionally includes boundary fixed effects and the specification restricts the sample to districts adjacent to a regional boundary. ‘Simulated IV’ corresponds to the simulated resource windfalls using mining production values and the redistribution rule of the ‘canon’ law.

Table D4: Robustness checks (2SLS), individual outcomes

	Employed	Public	Private		Earnings
	(1)	(2)	Wage- employed (3)	Self- employed (4)	(ln) (5)
1. Region-year FE	0.06*** (0.01)	0.02*** (0.01)	0.03*** (0.01)	0.04*** (0.01)	0.05*** (0.02)
2. Province-year FE	0.06*** (0.01)	0.02*** (0.01)	0.03*** (0.01)	0.04*** (0.01)	0.05*** (0.02)
3. Poverty-year FE	0.07*** (0.01)	0.02*** (0.01)	0.03*** (0.01)	0.05*** (0.01)	0.06*** (0.02)
4. Boundary-year FE	0.14*** (0.04)	0.05*** (0.02)	0.07* (0.04)	0.08*** (0.02)	0.20*** (0.07)
5. Excluding large districts	0.19*** (0.06)	0.07*** (0.03)	0.12*** (0.04)	0.11*** (0.03)	0.24** (0.09)
6. Excluding oil and gas regions	0.05*** (0.01)	0.01** (0.01)	0.02*** (0.01)	0.03*** (0.01)	0.05** (0.02)
7. Production of closest mine	0.06*** (0.01)	0.02*** (0.01)	0.03*** (0.01)	0.04*** (0.01)	0.05*** (0.02)
8. Simulated IV	0.43*** (0.06)	0.11*** (0.02)	0.14*** (0.03)	0.23*** (0.03)	0.67*** (0.14)
9. HH FE	0.12*** (0.03)	0.04 (0.03)	0.06 (0.05)	0.10*** (0.04)	-0.02 (0.16)
10. Individual FE	0.13*** (0.03)	-0.03 (0.02)	0.05 (0.05)	0.07** (0.03)	-0.11 (0.15)

Notes. Same notes as Table D3.

Table D5: Migration and selective migration (2SLS)

	Migrant	HH members	Highly educated	Female	Age	Married
	(1)	(2)	(3)	(4)	(5)	(6)
Public expenditure (ln)	-0.01 (0.02)	0.00 (0.01)	-0.00 (0.01)	0.00 (0.00)	0.24 (0.23)	-0.00 (0.01)
AR <i>p</i> -values	0.67	0.76	0.76	0.92	0.30	0.46
<i>F</i> -stat	67.59	91.49	91.46	91.49	91.49	91.49
Mean (initial)	0.51	0.97	0.58	0.51	37.48	0.52
Individuals	639311	722203	721583	722203	721846	722203
Districts	1295	1316	1316	1316	1316	1316

Notes. Estimated effects of public expenditure on the following outcomes by columns: (1) Migrant: indicator equal to one if the respondent was born in another district in which it resides, or zero if in the same district; (2) HH members: number of total household members; (3) Highly educated: indicator equal to one if has attained some secondary education (above the median of the educational attainment distribution) or zero otherwise; (4) Female: indicator equal to one if female or zero otherwise; (5) Age: age of the respondent; (6) Married: indicator equal to one if married or zero otherwise. All coefficients correspond to 2SLS estimates using resource windfalls as an instrument for public expenditure, following Equation 2. All regressions include district and year two-way fixed effects.

E Additional analysis

Table E1: Dynamic effects (current and cumulative)

	R_t			R_{t-k}			$R_t =$
	β	se	p -value	β	se	p -value	R_{t-k}
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Panel A: Municipal							
Productive: Started	0.13	0.03	0.00	0.15	0.03	0.00	0.75
Productive: Comp/Act	0.03	0.02	0.05	0.04	0.02	0.02	0.83
Social cap: Started	0.01	0.01	0.19	0.00	0.00	0.54	0.56
Social cap: Comp/Act	0.01	0.01	0.22	0.00	0.00	0.56	0.43
HR	5.20	0.95	0.00	-2.94	0.97	0.00	0.00
HR: Managers	0.16	0.07	0.03	0.08	0.07	0.25	0.46
HR: Professional	0.44	0.17	0.01	-0.19	0.17	0.28	0.01
HR: Technician	0.58	0.34	0.08	-0.57	0.29	0.05	0.02
HR: Support	4.03	0.83	0.00	-2.27	0.69	0.00	0.00
HR: Perm (share)	-0.02	0.00	0.00	0.00	0.00	0.92	0.00
Panel B: Individual							
Employed	0.01	0.00	0.00	0.00	0.00	0.15	0.00
Public	0.00	0.00	0.00	-0.00	0.00	0.38	0.01
Hours	0.03	0.07	0.70	0.15	0.08	0.06	0.25
Second job	-0.00	0.00	0.59	0.00	0.00	0.47	0.35
Informal	-0.00	0.00	0.01	0.00	0.00	0.01	0.00
Earnings (ln)	0.01	0.00	0.01	0.02	0.00	0.00	0.13
Employer	0.00	0.00	0.24	-0.00	0.00	0.73	0.33
Wage-employed	0.00	0.00	0.00	0.00	0.00	0.44	0.19
Self-employed	0.01	0.00	0.00	0.00	0.00	0.62	0.00
Unpaid work	0.02	0.00	0.00	0.01	0.00	0.02	0.00
Income (ln)	0.03	0.01	0.00	0.01	0.01	0.21	0.20
Consumption (ln)	-0.00	0.00	0.08	0.00	0.01	0.34	0.13
Poor	0.00	0.00	0.12	-0.01	0.00	0.03	0.01
Extreme poor	0.00	0.00	0.60	-0.01	0.00	0.09	0.09

Notes. R_t is the contemporary resource windfalls and R_{t-k} is the cumulative resource windfalls to date, excluding the contemporary transfer.

Table E2: Effects on firms, workers and mean wages in the formal sector (2SLS)

	Firms	Workers	Mean wage (ln)		
	(1)	(2)	Public	Non-agriculture	Agriculture
Public expenditure (ln)	9.28 (5.84)	199.46 (153.38)	0.09 (0.09)	0.47*** (0.12)	0.06 (0.05)
AR <i>p</i> -values	0.11	0.21	0.30	0.00	0.26
<i>F</i> -stat	43.75	48.83	33.53	47.03	25.86
Mean (initial)	258.05	2691.70	6.02	4.65	5.31
District-years	4131	4646	671	4354	2006
Districts	1054	1164	187	1096	543

Notes. Estimated effects of public expenditure on the following outcomes at the district-level by columns: (1) Firms: number of formal firms by the end of year; (2) Workers: number of workers in formal firms by the end of year; (3)-(5) Mean wage: mean wage in the public, non-agricultural (including services, manufacturing and construction) and agricultural sectors in the formal sector. All coefficients correspond to 2SLS estimates using resource windfalls as an instrument for public expenditure, following Equation 2. All monetary values in real terms (USD 2007) and natural logs. All regressions include district and year two-way fixed effects. Standard errors clustered at the district level in parentheses. * Significant at ten percent; ** significant at five percent; *** significant at one percent. AR *p*-values correspond to the Anderson-Rubin *p*-values robust to weak instrumental variable.

Table E3: Effects on wages and earnings by occupation and industry (2SLS)

	Earnings for entrepreneurs (ln)			Wages (ln)		
	Total	Non-agriculture	Agriculture	Public	Non-agriculture	Agriculture
Public expenditure (ln)	0.18* (0.11)	0.16 (0.11)	0.23 (0.17)	-0.02 (0.02)	-0.00 (0.02)	0.11 (0.07)
AR <i>p</i> -values	0.10	0.14	0.19	0.35	0.80	0.09
<i>F</i> -stat	31.68	57.41	15.06	96.02	74.66	29.39
Mean (initial)	6.97	7.36	6.85	5.70	4.69	4.28
Individuals	18356	3733	14296	37939	106667	22948
Districts	1154	415	1031	1031	1156	1035

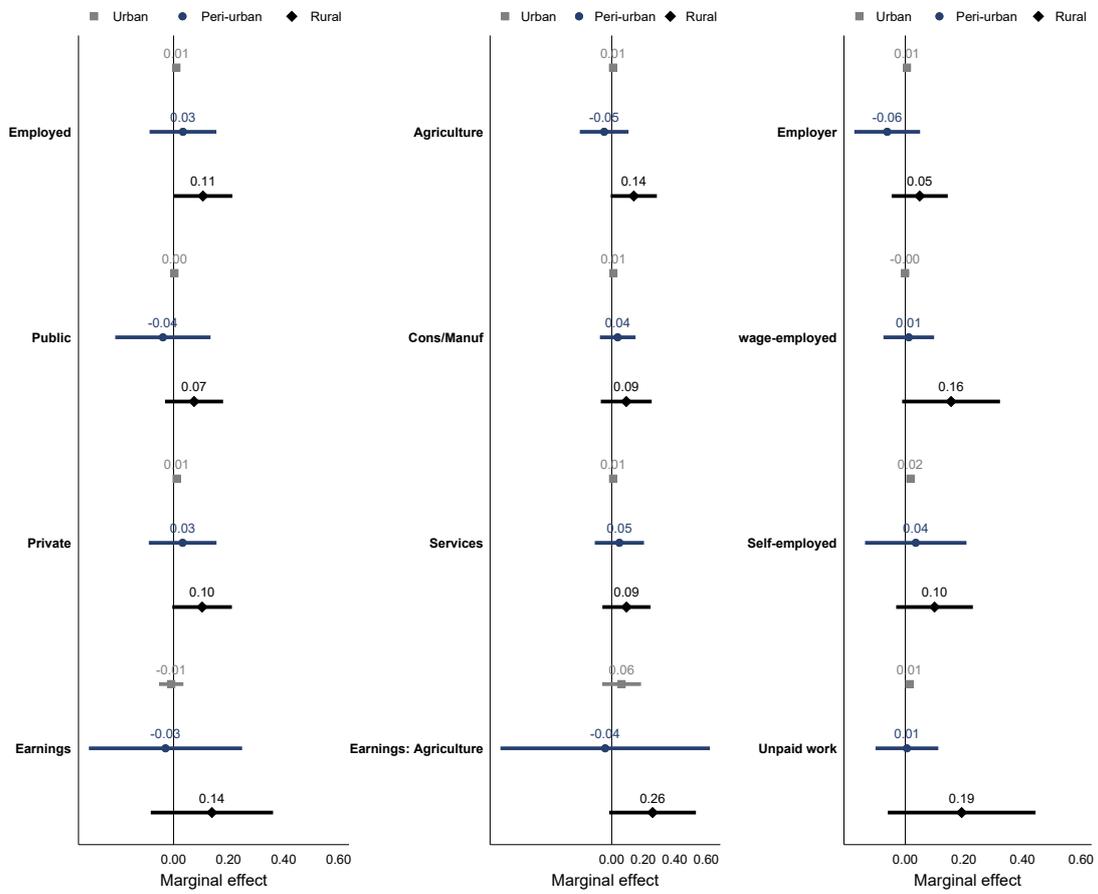
Notes. Estimated effects of public expenditure on the following outcomes at the individual-level by columns: (1)–(3) Earnings for entrepreneurs: earnings for all self-employed and employers, and for those in the non-agricultural and agricultural sectors; (4)–(6): Wages: earnings per hour worked for wage-employed reporting at least 20 hours of work during the previous week, for the public, non-agricultural and agricultural sector. All coefficients correspond to 2SLS estimates using resource windfalls as an instrument for public expenditure, following Equation 2. Monetary values in real terms (USD 2007) and natural logs. All regressions include district and year two-way fixed effects, and control for household characteristics. Standard errors clustered at the district level in parentheses. * Significant at ten percent; ** significant at five percent; *** significant at one percent. AR *p*-values correspond to the Anderson-Rubin *p*-values robust to weak instrumental variable.

Table E4: Local prices (2SLS)

	Housing (ln)	Food price index (ln)		
	imputed (1)	Overall (2)	Less tradable (3)	More tradable (4)
Panel A: All				
Public expenditure (ln)	0.106*** (0.024)	-0.001 (0.002)	-0.002 (0.002)	0.003 (0.002)
AR <i>p</i> -values	0.000	0.472	0.281	0.203
<i>F</i> -stat	90.290	79.112	79.112	79.112
Mean (initial)	4.074	0.087	0.098	0.030
Individuals	220253	211391	211391	211391
Districts	1316	1270	1270	1270
Panel B: Urban				
Public expenditure (ln)	0.037* (0.019)	0.003 (0.002)	0.003* (0.002)	0.001 (0.003)
AR <i>p</i> -values	0.061	0.131	0.118	0.626
<i>F</i> -stat	94.601	86.454	86.454	86.454
Mean (initial)	4.748	0.105	0.116	0.043
Individuals	139274	130047	130047	130047
Districts	902	856	856	856
Panel C: Rural				
Public expenditure (ln)	0.244*** (0.069)	-0.014*** (0.005)	-0.018*** (0.006)	0.007*** (0.003)
AR <i>p</i> -values	0.000	0.002	0.000	0.001
<i>F</i> -stat	31.897	33.196	33.196	33.196
Mean (initial)	3.036	0.064	0.073	0.014
Individuals	80979	81344	81344	81344
Districts	1028	1028	1028	1028

Notes. Estimated effects of public expenditure on the following outcomes by columns: (1) Housing prices: Imputed housing prices derived from homeowners' reports on how much they would be able to rent out their property; and (2)-(4) Food price index: broken down into three categories, 'overall' (encompassing all food products), 'less tradable' (limited to the top 10 food products predominantly acquired through self-consumption within each region), and 'more tradable' (covering all remaining food products). In column (1) we additionally control for dwelling characteristics including type of dwelling, wall, roof and floor materials, number of rooms, and access to utilities (piped water, sewage, electricity and internet). Sample restricted to rural areas.

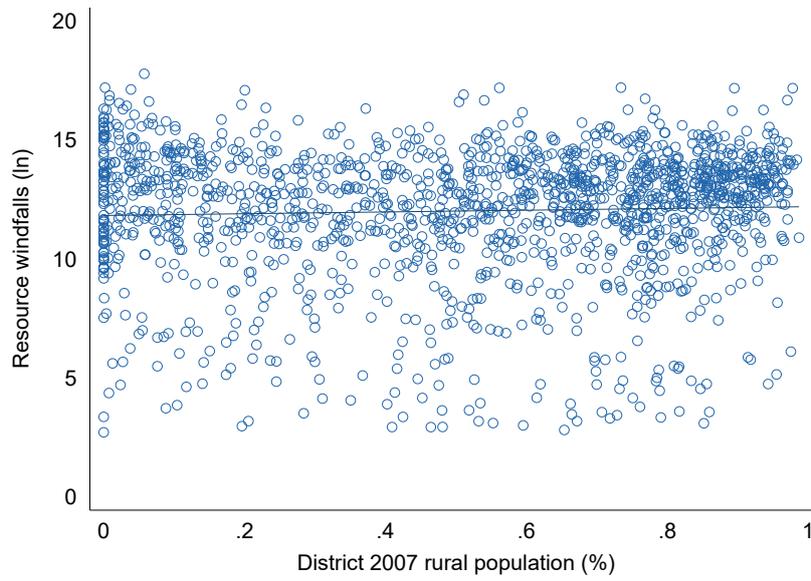
Figure E1: Heterogenous effects by area in the coast



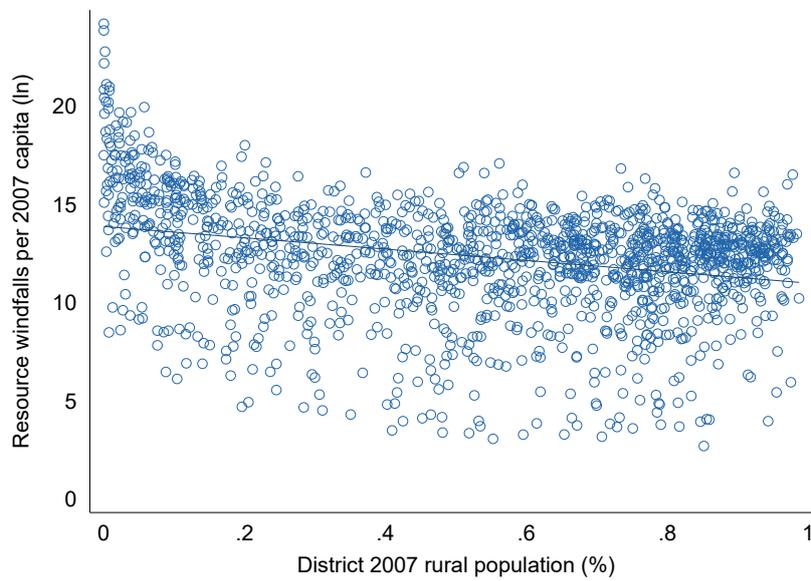
Notes. Same notes as Figure 4. Sample restricted to households in the Coast.

Figure E2: Mean resource windfalls (2006-2018) and share of rural population (2007)

A. Resource windfalls



B. Resource windfalls per capita



Notes. Share of rural population at the district level based on the 2007 Census. Sample restricted to non-extractive districts in the analysis.

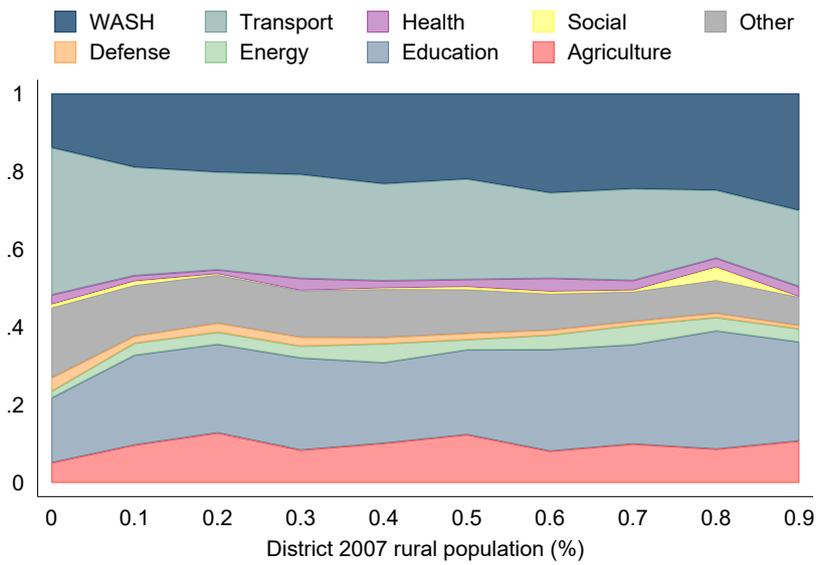
Table E5: Heterogenous effects by geographic region

	Coast			Highlands			Rainforest					
	β (1)	se (2)	p-value (3)	Obs (4)	β (5)	se (6)	p-value (7)	Obs (8)	β (9)	se (10)	p-value (11)	Obs (12)
Panel A: Municipal												
Productive: Started	1.94	0.84	0.05	2775	1.11	0.37	0.02	6863	1.24	0.94	0.23	1267
Productive: Comp/Act	0.83	0.33	0.04	2775	0.30	0.21	0.20	6863	-0.51	0.99	0.62	1267
Social cap: Started	0.25	0.11	0.05	2775	-0.02	0.06	0.71	6863	0.16	0.24	0.52	1267
Social cap: Comp/Act	0.09	0.10	0.38	2775	0.09	0.06	0.20	6863	0.61	0.49	0.25	1267
HR	50.27	19.26	0.02	5011	26.17	5.97	0.00	11086	67.05	22.27	0.01	2334
HR: Managers	-0.08	1.14	0.94	5011	1.04	0.73	0.18	11086	0.07	1.88	0.97	2334
HR: Professional	-2.87	4.56	0.54	5011	4.41	1.31	0.01	11086	9.17	3.32	0.02	2334
HR: Technician	6.58	8.63	0.46	5011	3.80	1.72	0.05	11086	18.13	9.08	0.07	2334
HR: Support	46.64	19.98	0.04	5011	16.93	4.76	0.00	11086	39.69	15.22	0.02	2334
HR: Perm (share)	-0.25	0.05	0.00	4579	-0.06	0.03	0.06	10272	-0.33	0.16	0.07	2124
Panel B: Individual												
Employed	0.02	0.01	0.01	297564	0.13	0.03	0.00	291696	0.04	0.02	0.04	131725
Public	0.00	0.01	0.55	127965	0.04	0.01	0.00	93825	0.03	0.01	0.04	40815
Private	0.03	0.01	0.01	279872	0.14	0.03	0.00	273496	0.05	0.02	0.04	123776
Hours	0.82	0.64	0.22	186216	-0.66	0.51	0.22	214919	-1.91	1.23	0.15	98442
Second job	0.00	0.01	0.76	187450	0.01	0.01	0.63	215510	-0.01	0.02	0.66	98494
Earnings (ln)	-0.01	0.02	0.58	104969	0.16	0.04	0.00	72629	0.11	0.07	0.15	33476
Employer	0.01	0.01	0.25	120297	0.01	0.01	0.11	86159	0.01	0.02	0.48	39136
Wage-employed	0.01	0.01	0.22	197783	0.07	0.02	0.00	122090	0.06	0.03	0.08	55979
Home production	0.04	0.01	0.01	120598	0.31	0.06	0.00	126449	0.06	0.04	0.16	55505
Self-employed	0.03	0.01	0.01	172884	0.08	0.02	0.00	167725	0.03	0.02	0.10	72915
Informal	0.00	0.01	0.63	187000	-0.01	0.01	0.02	215384	-0.01	0.01	0.17	98472
Services	0.01	0.01	0.07	246372	0.08	0.02	0.00	159796	0.06	0.02	0.01	75357
Agricultural	0.04	0.02	0.02	136398	0.21	0.04	0.00	193034	0.03	0.03	0.42	83874
Manuf/Cons	0.01	0.01	0.08	133966	0.04	0.01	0.02	91291	0.05	0.02	0.06	38194
Earnings - Serv	-0.01	0.02	0.50	76113	0.08	0.03	0.01	45479	0.03	0.05	0.58	20132
Earnings - Agri	0.09	0.10	0.38	12433	0.49	0.16	0.01	20990	0.32	0.24	0.21	10830
Earnings - Manuf/Cons	0.05	0.04	0.27	15452	0.24	0.08	0.01	5922	0.13	0.16	0.42	2354
Income (ln)	0.05	0.06	0.42	52167	0.13	0.07	0.07	44531	0.30	0.16	0.09	18643
Income rent, annualised, deflated (logs)	0.09	0.12	0.50	4894	0.09	0.08	0.31	6221	0.32	0.33	0.35	2242
Consumption (ln)	-0.05	0.02	0.03	99909	0.01	0.02	0.44	106709	0.07	0.06	0.25	44938

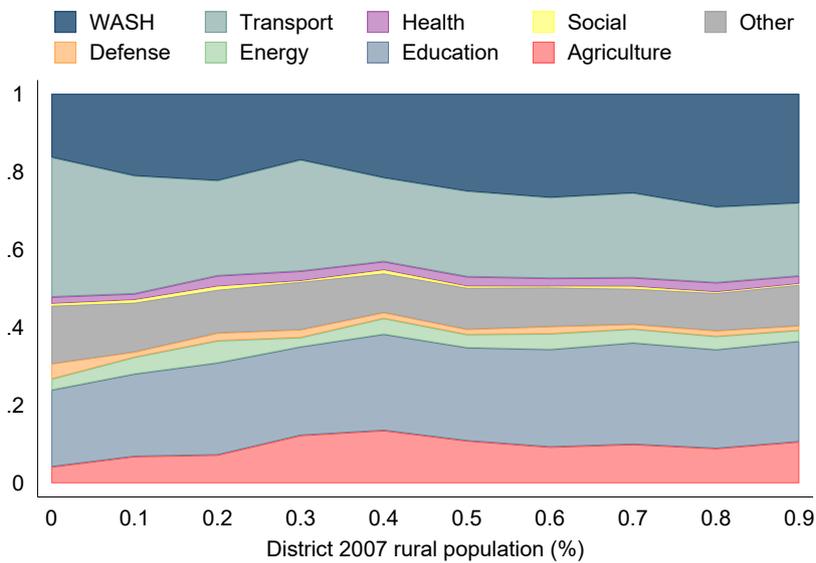
Notes. Estimates are based on 2SLS estimations using equation (2) for each outcome measured from ENAHO. p -values are presented in columns (3), (7) and (11). Standard errors are clustered at district-level in columns (2), (6) and (10). The dependent variables are indicated in the rows.

Figure E3: Share of projects by type (2006-2018) and district share of rural population (2007)

A. Low resource windfalls

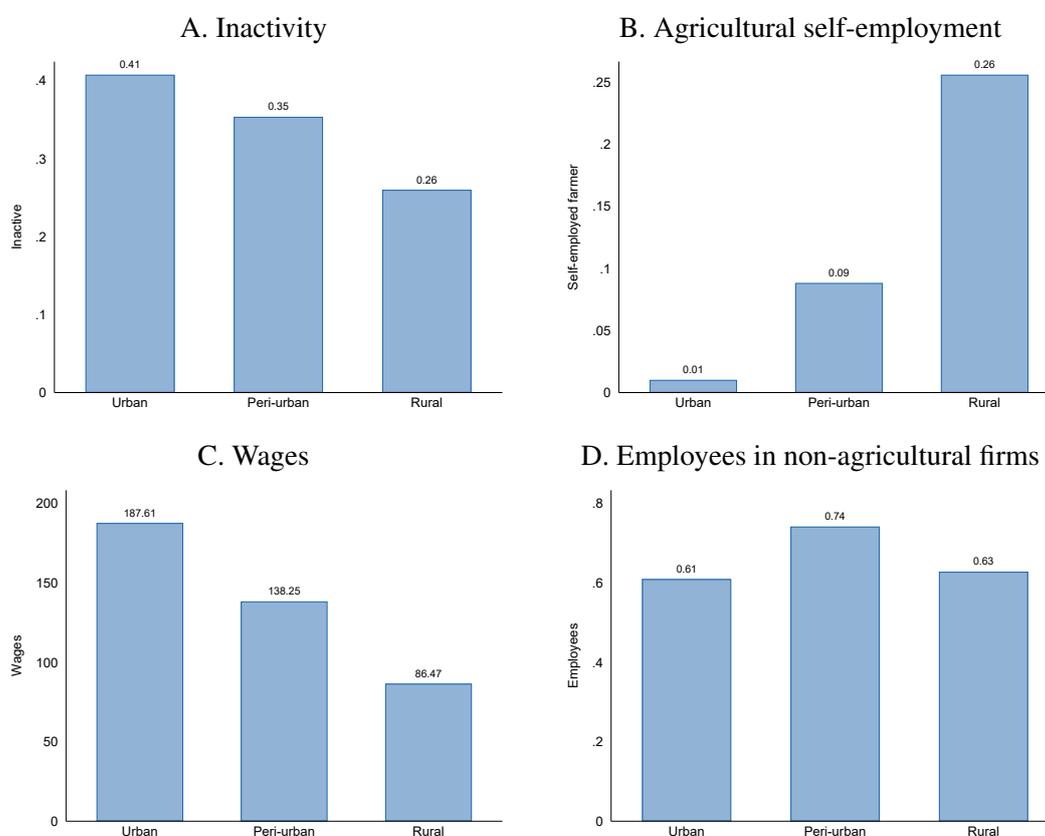


B. High resource windfalls



Notes. Share of projects by type calculated from the total of projects started between 2006-2018. Share of rural population at the district level based on the 2007 Census. Sample restricted to non-extractive districts in the analysis. 'Low' resource windfalls are districts falling below the median of the total resource windfalls received between 2006 and 2018; and 'High' is for districts falling at or above the median.

Figure E4: Labor markets by area (initial)



Notes. Panel A shows the share of individuals that are inactive, Panel B the share of individuals working in agricultural self-employment, Panel C the mean wage of for wage-employed, and Panel D the number of employees reported by non-agricultural firms. Panels A–C are from individual-level data for 2006 and Panel D for firm-level data for 2007.

Table E6: Urban and peri-urban economies (2SLS)

	Income	Consumption					Assets	Poor
	(1)	Total (2)	Food (3)	Rent (4)	Durables (5)	Non-dur (6)	House (7)	(8)
Public expenditure (ln)	0.10** (0.04)	-0.03** (0.01)	-0.03** (0.01)	0.01 (0.02)	-0.10*** (0.02)	-0.06*** (0.02)	0.03*** (0.01)	0.02*** (0.01)
AR <i>p</i> -values	0.01	0.01	0.02	0.40	0.00	0.00	0.00	0.00
<i>F</i> -stat	85.08	93.14	93.03	93.14	92.98	93.09	93.14	93.14
Mean (initial)	5.67	6.37	5.61	4.48	2.80	5.03	0.67	0.32
Individuals	240368	166401	166184	166401	163706	166253	166401	166401
Districts	899	902	902	902	902	902	902	902

Notes. Estimated effects of public expenditure on the following outcomes by columns: (1) Income: deflated income for individuals reporting receiving income in logs; (2)-(6) Consumption: deflated household consumption per equivalent adult in logs, per category. Consumption in non-durables include clothing, healthcare and personal care, transport and telecommunications, leisure and others; (7) House: indicator variable equal to one if owns the dwelling, and zero if not; (8) Poor: indicator variable equal to one if the household is poor, and zero if not poor. All coefficients correspond to 2SLS estimates using resource windfalls as an instrument for public expenditure, following Equation 2. All regressions include district and year two-way fixed effects, and control for household characteristics. Coefficients in columns (1) and (2) correspond to monetary values in real terms. Sample restricted to urban areas.

Table E7: Output multiplier using district GDP

	Nighlights		Seminario & Palomino, 2018	
	All (1)	Winsorized (2)	All (3)	Winsorized (4)
Resource windfalls (USD 2007)	2.58 (1.10) [0.02]	3.79 (1.42) [0.01]	1.85 (0.66) [0.01]	4.86 (0.67) [0.00]
p-value ($\alpha = 1$)	0.15	0.05	0.20	0.00
Mean (initial)	4.41e+07	2.41e+07	7.78e+07	2.08e+07
District-years	18518	18518	20000	20000
Districts	1566	1566	1566	1566

Notes. Estimated reduced-form effects of resource windfalls on GDP. District GDP in columns (1) and (2) correspond to regional GDP redistributed at the district-level using the share of harmonized global night-time light dataset developed by Li et al. (2020) as weights. GDP in columns (3) and (4) correspond to Seminario and Palomino (2018)'s estimations. All monetary values in real terms (2007 USD). Columns (1) and (3) present regressions in levels and columns (2) and (3) use variables that have been winsorized at the top 10 percentile to deal with outliers. All regressions include district and year two-way fixed effects, and control for cumulative resource windfalls until $t - 1$. Standard errors clustered at the district level in parentheses. * Significant at ten percent; ** significant at five percent; *** significant at one percent.

Table E8: Household welfare (2SLS)

	Extreme poor (1)	Female head (2)	Poor dwelling (3)	Over-crowded (4)	Open defecation (5)
Panel A: Rural					
Public expenditure (ln)	-0.06 (0.05)	0.02 (0.02)	-0.03 (0.03)	-0.00 (0.02)	-0.04 (0.03)
AR p -values	0.16	0.15	0.33	0.83	0.27
F -stat	26.76	33.07	33.07	33.07	33.07
Mean (initial)	0.44	0.16	0.20	0.18	0.47
Individuals	42159	85155	85155	85155	85155
Districts	985	1028	1028	1028	1028
Panel B: Urban					
Public expenditure (ln)	0.04* (0.02)	-0.00 (0.01)	0.01 (0.00)	-0.00 (0.00)	0.01 (0.01)
AR p -values	0.07	0.44	0.23	0.85	0.36
F -stat	98.00	93.14	93.14	93.14	93.14
Mean (initial)	0.13	0.25	0.07	0.06	0.09
Individuals	27949	166401	166390	166387	166401
Districts	832	902	902	902	902

Notes. Estimated effects of public expenditure on the following outcomes by columns: (1) Extreme poor: indicator variable equal to one if the household is extremely poor, and zero if poor; (2) Poor dwelling: dwelling has walls from rudimentary materials and natural floor; (3) Overcrowded: more than 4 household members per room (excluding kitchen, bathroom and garage); (5) Open defecation: indicator variable equal to one if the house has no toilet, and zero if it does. All coefficients correspond to 2SLS estimates using resource windfalls as an instrument for public expenditure, following Equation 2. All regressions include district and year two-way fixed effects, and control for household characteristics. Sample restricted to households in rural areas.