Finance and agricultural aid play a pivotal role in economic development. The availability of financing can have a substantial positive effect on households and firms by enabling productive projects and better utilization of capital. This study expands on the development literature by investigating some implications of finance and aid. This is done by examining whether finance and aid affect favorably incomes of the poor, enhance agricultural productivity and its stability, and facilitate agricultural productivity convergence.

The first essay studies the financial development-poverty nexus by separating financial development into development of the banking sector and development of the market sector. To do this, I construct a new dataset for the average income of the poorest quintile by combing data from the World Bank and United Nations University World Institute for Development Economics Research. I use dynamic panel models with Arellano-Bond estimation to find the impact of bank development and market development on incomes of the poorest quintile within countries. The results suggest that development in both sectors raise incomes of the lowest quintile. This turns out to be true for both developed and developing countries.

The second essay focuses on the impacts of financial development as well as agricultural foreign-aid on agricultural productivity in developing countries. Growth in agriculture is important because it creates both higher incomes in that sector and serves as a catalyst for industrialization. It is seen that although financial development has a positive association with agricultural productivity, agricultural aid does not. However, I find that volatility in agricultural aid
significantly affects the volatility in agricultural productivity, and that the agricultural aid does have a positive effect on risk-adjusted agricultural productivity, when risk is measured as the variability in agricultural productivity. Specifically, this positive effect arises from stable agricultural aid being associated with stable agricultural productivity.

The third essay investigates the existence of agricultural productivity convergence across 140 countries. Agricultural productivity convergence is tested for OECD countries, non-OECD countries, and all countries together. This essay also investigates if agricultural aid assists in agricultural productivity convergence. The results are drawn from models that perform well, as suggested by comparisons of the original data and by predictive values generated from the models. While I do find some evidence in favor of agricultural convergence, the findings, however, do not support an enabling effect of agricultural aid in convergence.

The three essays study the effects on economic development by gaining further knowledge of how finance and aid impact the poor and agricultural productivity. From a policy perspective, the results suggest that opening up access to loans and financial markets for the poor are welfare enhancing. For aid donors wanting to have an impact on poverty in receiving countries, these results recommend a steady flow of aid to the agricultural sector.