

The financialization of remittances and the individualization of development: A new power geometry of global development

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journals.sagepub.com/home/epn**Hannes Warnecke-Berger** 

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Abstract

The article argues that the increasing financialization of remittances produces an enormous shift in the political economy of development and contributes to a new power geometry of development. Exploring this power geometry, the article focuses on three main issues: First, migrants intend to support their friends and families on an individual level as remittance senders, and together with the corresponding recipients they form a translocal moral economy. On a macro level, the value of these transactions is high when currency hierarchies remain strong. Financialization of remittances amplifies this micro–macro divergence inherent to remittance flows. Deepening the financial “development” impact of remittances then goes hand in hand with cementing global inequality. Second, economic and political elites in remittance-receiving societies who are able to organize direct and indirect access to remittances with the help of financial instruments and through financialization are able to emancipate from national political control. This indirectly contributes to fostering elite rule in remittance-receiving societies. Third and finally, development is no longer a “national” objective but has become the individual risk of migrants and their relatives and friends. Financialization of remittances therefore consolidates an individualized notion of development. This paper aims to go beyond the narrow economic and problem-solving approach on which many studies on remittances and financial inclusion draw. It illustrates how financialization of remittances (re)shapes power relations both within the Global South and between the Global South and the Global North.

Keywords

Financialization, remittances, currency hierarchies, north-south relations, negotiated dependency

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Introduction

In an influential policy paper back in 2005, Ratha (2005), a leading world bank economist and one of the protagonists of the then emerging development mantra of remittances, sketched his ideas on the development impact of remittances with a few bullet points. He stated that (1) remittances are an important flow of income for the Global South; (2) remittances are often invested by the recipients; (3) strengthening the financial infrastructure would bring more funds into formal channels and as such would translate more money into investment; (4) increased international mobility, finally, would intensify not only remittance flows but this remittances-finance-development nexus.

When Ratha presented his ideas in 2005, the relevance of remittances as a development tool still had to be substantiated in order to justify a policy turn. He as well as others suggested to utilize remittances as leverage for development. In their argumentation, recipients are likely to spend their remittance on investments. Therefore, addressing and instrumentalizing remittances would advance development policies within the sustainable development goals paradigm and constitute a tremendous gain for international development agencies such as the World Bank. As Bakker (2015a) has shown, this line of argument has gained attention since then and helped to frame remittances as a proper development tool. Ratha's statements, however, not only emphasize that remittances are important but lay the ground for a concept as to how and by which means development should be generated. In this perspective, remittances are good *per se*, but can be even better, if they are sent through the right channels and spent on the right things. This is the advent of finance in the remittances-development nexus. This nexus is grounded on the relationship between remittances and investment: Finance functions as an effective channel and as a means in itself that enhances the impact of remittances in the development process, which together would finally produce "development."

Meanwhile, this nexus has become intensively debated and better understood (Faist et al., 2011; Haas 2012). At the same time, policy implications have become more detailed and international development organizations such as the World Bank tend to describe this nexus as a "global remittances agenda." This agenda understands migration, remittances, and diasporas as leverage for financing sustainable development (Ratha, 2015). Thereby, migrants and entire diasporas were incorporated as partners in development (Pellerin and Mullings, 2013). Today, the focus on remittances no longer requires justification since the astonishing volume of remittances renders their importance self-evident.

The current global remittances agenda pursues the following aims and objectives: (1) improving the statistical knowledge on remittances; (2) strengthening formal remittance channels and retail payment systems; (3) improving the access for households and petty producers to financial products; and finally (4) improving the access for entire economies and countries to global financial markets (Ratha, 2015: 9).

Prior to this development, remittances had solely been viewed as a macroeconomic flow of money, and policy implications, consequently, used to be conceived only for the macro level, relying on a rather traditional policy mix, such as taxation or foreign exchange controls. Now within this new global remittance agenda, finance relates micro and macro conditions of remittances to each other. It not only addresses governments or the banking system, but likewise individuals; senders as well as recipients. I interpret this new agenda as an emerging political and economic strategy of financialization: the financialization of remittances (FOR). By means of novel financial products, this agenda aims at integrating senders and recipients—migrants and their relatives and friends—into the global economy and into development processes by which, in the end, remittances become financialized.

While individual policies, strategies, and products had already and often been developed before, this agenda reorganizes these strategies in different but emergent and more "elegant" ways. As a

result, FOR creates a new power geometry of development by which the access to, the appropriation of, and the control over remittance flows is reshaped.

Existing financial products, such as bank accounts or individual loans and credits, are promoted and novel financial instruments, such as diaspora bonds, migrant mutual funds, or transnational loans, are even invented in order to channel migrant money into finance. This emerging global remittances agenda promises to be pro-poor since the lower strata seems to be “empowered” to access financial markets. At the same time, this same agenda offers opportunities for intermediary actors for organizing access to and appropriating a share of the global remittance flow. Novel financial products allow for the securitization of future remittance flows and related to this, generate preferential access for certain actors to international credits. Hence, migration and remittances become a financial asset of states, governments, and financial actors, particularly for societies in the Global South in which remittances are an important economic factor and that sometimes even depend on remittance inflows. FOR therefore takes place both at the micro level (individual sender and recipients) and at the macro level of analysis (societies).

The article argues that the global remittances agenda and the resulting FOR intensifies an enormous neoliberal shift in the political economy of development for remittance-sending as well as -receiving societies. These processes contribute to a new power geometry of development. The notion of power geometry draws on the work of Massey (1993; 1999). She describes how different mobilities and spatialities are shaped by power differentials and asymmetries while (re)producing them at the same time. Transferring this idea to the topic of remittances and development helps to depict how a global network of migrants and stay-behinds, institutions and organizations such as hometown associations but also governments, international organizations, and firms such as national and transnational commercial banks position themselves in relation to an emerging global monetary flow from which these actors expect success, power, welfare, or development. Following Massey (1993: 61), a power geometry of development can be defined as a global web of different social groups and different individuals being placed in very distinct ways in relation to global flows and interconnections from which development results. Massey (1999: 41) highlights that global flows and interconnections are the product of “power filled social relations,” and as such, they are the expression of inequalities and prone to social conflicts and struggles. I use this notion of power geometry in order to examine the struggle and power-ridden negotiation over the global flow of migradollars. I contend that the global remittances agenda reshapes this global web, thereby influencing the dynamics of global inequalities commonly referred to as North–South relations. In short, the agenda and the FOR that it promotes produces a new power geometry of development.

From the perspective of critical (post-Keynesian) heterodox political economy, I focus on the reconfiguration of social settings, actors and strategies in relation to the global flow of remittances to reveal the structural effects of FOR. Furthermore, I am particularly interested in how FOR is reconfiguring North–South relations. Drawing on this concept of power geometry, the article argues that FOR is producing three distinct effects: First, FOR amplifies the micro–macro divergence inherent to remittance flows. While individually, migrants intend to support their friends and families by sending money, on a macro level of analysis, this support is determined by currency exchange rates. The “value” of remittance transactions is high as long as the gap between the international value of the currency of the host economy in which the migrant lives and works and the currency of the home economy, in which remittance recipients live, remains high: the more devalued the currency of the home economy vis-à-vis the host currency, the more the same remittance “counts” for the home family. Assuming a stable migrant income and a stable propensity to remit, migrants benefit from subordinate home currencies. Deepening the “development” impact of remittances then cements a subordinate role of receiving economies in global currency hierarchies, which goes hand in hand with cementing global inequality and international prosperity gaps. Second, political actors such as political and economic elites who are able to organize direct and indirect access

to remittances through financial instruments and financialization are able to elude national political control. FOR then indirectly contributes to fostering elite rule in remittance-receiving societies. Third, and related to this, FOR further individualizes development because it unfolds its effects in a development setting in which development since the 1980s has increasingly become a product of individual activities instead of being society or state-run. Through FOR, development ultimately is no longer a “national” objective but to be achieved through the individual risk of migrants and their relatives and friends. This paper aims to go beyond the narrow economic and problem-solving approach on which many studies on remittances and financial inclusion draw. It illustrates how FOR (re)shapes broader power relations within the Global South as well as between the Global North and the Global South.

The article’s analytical aim is theoretical in nature, but it is the outcome of a comparative empirical research project of societies that are heavily dependent on remittance flows (El Salvador, Togo, and the Philippines) as well as their corresponding remittance-sending societies. Following World Bank estimates, world remittances amounted to 689bn US\$ in 2018 (World Bank, 2019). With a share of around 76%, a large part of this flowed to developing societies some developing societies being dependent on remittance inflows. El Salvador, Togo, and the Philippines are paradigmatic cases of the remittance-led development model. Their comparative advantage has shifted in recent decades from commodity production to the export of migrants and the backflow of remittances. In these three cases, remittances are currently the most important source of foreign exchange earnings, and the three societies are literally dependent on migration and remittances for their own social reproduction. In these three societies, far more than 20% of the population receive remittances, and often, these remittances are a considerable part of the household income (see for a discussion of the distribution of remittances in these cases, e.g. Ang, et al., 2009; Warnecke-Berger, 2020; BCEAO, 2012). I conducted qualitative 230 interviews with remitters and recipients, migrant community organizations, government officials, staff members of national and international development organizations, CEOs and employees of banks, several focus group discussions among migrants and their stay-behinds, and a survey among Germany based Togolese hometown associations. Furthermore, I compiled descriptive statistics from national household surveys. I then used qualitative comparative inquiry and process tracing to generate the results. As paradigmatic cases of the remittance-led development model, these cases furthermore illustrate the process of FOR, although to varying degrees. The Philippines as well as El Salvador are cases that attracted enormous international attention, both from the academic community as well as from national and international organizations. In Togo, even though migration and remittances are similarly important, political initiatives and government policy are still weak; here, FOR is still in its infancy.

The article is structured as follows: a first section reviews the literature on financialization with a focus on the Global South. The second section elaborates on the link between financialization and remittances to concretize FOR. A third section then discusses the effects of FOR for North–South relations in showing that FOR produces a particular power geometry of development. The paper closes with a short conclusion.

Financialization and the Global South

Financialization can widely be defined as “the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies” (Epstein, 2005: 3). First impulses for the research on financialization came from structural economic changes in advanced capitalist economies beginning in the 1970s such as the deregulation of financial and currency markets, new financial innovation to secure against currency shocks, an increasing role of finance in corporate governance as well as rising household debt (Karwowski et al., 2017; Tomaskovic-Devey and Lin, 2011). Recently, the literature has diversified

(Krippner, 2012; van der Zwan, 2014).¹ In contrast to neighboring concepts such as financial development which accentuate the positive role of finance for economic growth (see for an overview Levine, 2005), the concept of financialization concentrates on the qualitative and structural changes that come with the increasing political, economic and social relevance of finance.

Becker (2014) makes an important step to integrate the Global South into the discussion on financialization in distinguishing different forms of financialization. First, financialization and above all financialization in advanced capitalist societies is related to the creation of “fictive capital” (Marx, 1972 [1894]: 484–510) through new financial innovations that lead to novel financial products.² In recent decades, these new financial products have expanded debt relations to the Global South and they are particularly designed to include marginalized populations into financial markets (Mader, 2015; Roy, 2010; Soederberg, 2014), a process, on which FOR also relies. The second form of financialization is related to the return of economic rents on global financial markets. With high monetary returns particularly from oil exports, new players entered world financial markets, such as sovereign wealth funds or private equity funds that seek to speculate on future financial returns (Ramamurti, 2011). FOR is likely to intensify due to this speculation, because these new financial actors may see remittances as a framework for attractive investments. Finally, the third form of financialization is based on interest, credit, and public debt. Domestic financial systems in the Global South are structurally weak because of lacking demand for investment goods in line with subordinated currency regimes (Herr and Hübner, 2005). Thus, for developing societies, participating in financialization means that they are trapped in a subordinate position within the world economy eventually expressed in currency hierarchies (Bonizzi et al., 2019; Ocampo, 2001).

Studies of financialization therefore highlight a qualitative shift within economies caused by the excessive availability of money that searches for lucrative investments in finance and not within the real economy. These studies illustrate that groups of winners and losers are reconfigured and banks and other financial actors benefit vis-à-vis private households (which experience stagnating or even decreasing real wages). However, this discussion almost exclusively focuses on the Global North (for an exception, see Becker et al., 2010; Bonizzi, 2013; Kaltenbrunner, 2010). Furthermore, and apart from some exceptions (see e.g. Hudson, 2008; Kunz, et al., forthcoming), the topic of remittances plays a minor role in analysis of financialization.

Financialization of remittances

Remittances allow for an increasing integration of the Global South into these processes of financialization, with effects for both the Global North as well as for the Global South resulting in a new power geometry of development. In order to examine these processes, two general modes of financialization need to be distinguished which can be derived from the discussion of the financialization of raw material commodity trade (UNCTAD, 2012). In one case, an already existing economic flow—such as remittances or raw material flows—is increasingly channeled into and through new financial instruments. The flow itself continues to flow, but new financial actors are able to capitalize on this flow and to access and even appropriate a share of this flow. Novel financial instruments permit to capture of a share of the flow. In the other case, through highly complex and credit-driven processes of securitization, new monetary flows are virtually created. These flows remain fictive as long as they are not transferred into “the real economy,” which, however, is necessary for the original investor to capture the return on the investment. FOR combines both processes as it integrates an already existing global flow (remittances) into global finance and new financial actors are able to capitalize on and to appropriate a share of this flow or even to create fictive capital by securitizing this flow. As a result of both processes, actors and entire groups (re)position themselves around the remittance flow, and a new power geometry of development emerges. From this perspective, it

becomes clear that the global remittances agenda is particularly pushed by intermediary actors such as banks and money transfer operators (MTOs) but likewise by national governments and (inter) national development organizations and even NGOs such as hometown associations, with the objective to gain access to and appropriate a share of the remittance flow.

In the case of remittances, this process is based on technical requirements. The sending of money from one economy to another relies on cross-border (retail) payment infrastructures that allow for transferring small amounts of money across borders and currency areas (Rodima-Taylor and Grimes, 2019).³ Still, payment infrastructures are nationally based and “linkages between national payment infrastructures have not seen a large-scale deployment so far” (Bank for International Settlements and World Bank, 2020: 37). Retail payment infrastructures can be further divided into front-end and back-end infrastructures. At the front-end, MTOs, post offices, or commercial banks interact with remittance senders and receivers. At the back-end, banks or non-bank financial institutions organize the clearing and settlement of monetary transactions within as well as between economies. For settling monetary transfers between economies, financial institutions use specific infrastructures such as peer-to-peer correspondent relations or the Society for Worldwide Interbank Financial Telecommunication (SWIFT) which provides a messaging system through which correspondent bank partners can communicate their clearings and settlements. Furthermore, blockchain technologies play an increasing role at this stage (Rella, 2019).

The common technical direction of remittances is as follows: The remittance sender hands over the money to and agent at the front-end, e.g., a MTO agent or an employee at the bank counter. To do so, the sender can use a credit or deposit card, a bank account, an electronic wallet, or, most commonly, cash (Grace, 2004). These front-end service providers accept the payment and forward the payment to a corporate bank account. Here, the money enters the back-end, and the corporate bank account uses a correspondent banking relation to transfer the payment to the economy of a destination. At its destination, the money again enters the partner’s back-end where it is then transferred to the destination’s front-end, e.g., a MTO agent, and the respective client withdraws the money (BIS, 2018). Based on these technical requirements, the access to remittances can take various forms and therefore is context specific. However, it taps into a share of remittances that otherwise would accrue to migrants and their families and friends. Usually, it takes the following steps:

First Step: Financial Inclusion

Through FOR, intermediary actors that are not senders and recipients of remittances in the original sense are able to appropriate a part of the remittance flow without touching on the underlying micro-rationality of remittances. This process is facilitated by new financial opportunities (Gabor and Brooks, 2017) such as new front-end services (BIS, 2014). The easier the sender’s and receiver’s access to the front-end, so the hope, the more likely remittances will flow.

Initially, intermediary actors have concentrated on modifying the front-end channel through which remittances are sent, e.g., by enlarging the network of MTO agents through entering business co-operations with retail stores or pharmacies, by offering mobile money solutions through respective providers (Scharwatt and Williamson, 2015: 7), or by providing bank accounts to remitters and recipients. First, this led to considerable cost reductions in sending remittances through these formal channels (Ahmed et al., 2021). Second, the increasing use of formal channels led to much better documentation of remittances as the remittance flow becomes visible within the back-end infrastructure. Third, the remittance flow becomes increasingly entangled with financial services, and in particular with front-end and back-end bank accounts that are used to access and to interlink retail payment infrastructures (Bech et al., 2020).

Therefore, the initial and essential part of FOR is to equip the sender and the recipient with bank accounts to use formal retail payment infrastructures. This points to the crucial role of financial inclusion within FOR. Recent studies on the relationship between remittances and financial

inclusion suggest that low levels of remittances rather substitute the financial system. When remittances become increasingly important as a share of GDP, however, financial inclusion and the use of bank accounts increases. Hence, the more specialized economies are on remittances and the more these societies adopt the remittance-led development model, the more important are formal remittance channels such as bank accounts, and consequently, financial inclusion increases (Naceur, et al., 2020; Issabayev, et al., 2020). Furthermore, remittances tend to increase the recipients' likelihood of using bank accounts as well as mobile banking services (Ajefu and Ogebe, 2019: 320; Ambrosius and Cuenca, 2016: 93).⁴ Formerly unbanked people, many of them remitters and stay-behind family members and friends, who have gained access to the financial sector are now able to benefit from financial services such as credits and loans. However, at the same time, financial service providers are in the position to access remittances.

Given that the global volume of remittances amounted to 689bn US\$ in 2018, of which 529bn US\$ were directed to developing societies, and the average transaction fee was around 8% (World Bank, 2019), banks and MTOs such as MoneyGram or Western Union gained around 55bn US\$ alone from fees. In addition to fees, another main sources of profit for these companies are gains from exchange rate fluctuations. The MTO market is increasingly concentrated, and the three leading providers combined have a global market share estimated at more than 25% (IFAD, 2017: 35; World Bank, 2018: 113). Often, MTOs benefit from monopolistic local conditions (Busumtwi-Sam, 2019: 175), and when the sender remits money with MTOs, it ties the recipient to this same channel for receiving the money, which subsequently allows banks to offer further financial products such as loans and credits. While the largest MTOs can often manage their cross-border transactions within their own back-end infrastructure, smaller MTOs need to rely on correspondent banking relations (World Bank, 2017: 47; IMF, 2017: 9; Bank for International Settlements and World Bank, 2020). Correspondent banking relations in turn also tend to concentrate in the hands of a few transnational banks due to cost reductions and de-risking (Erbenová et al., 2016).

Hence, through increasing bank account ownership and the sophistication of retail payment infrastructures, FOR materializes, primarily because the remittance flow becomes an observable object both in quantitative and qualitative terms, both at the front-end as well as the backend infrastructure. This in turn allows banks to produce statistics and enhance knowledge which in the end permits to technically channel remittances into finance.

Second Step: Capitalizing on Remittances

Financial inclusion is the prerequisite for the second step as it enables intermediary actors to securitize either the entire remittance flow or their appropriated share in order to get preferential access to global financial markets. Within the context of global financial markets, these intermediary actors are able to capitalize on remittances and to gain more money than the amount originally sent by the remitter. This is done in three different ways.

First, banks use remittances as an entry ticket to invite formerly unbanked people and households into the financial system (Datta, 2017: 544; Ambrosius, 2011: 22). A CEO of a Salvadoran commercial bank, for instance, admitted in an interview I conducted in El Salvador that remittance services are not profitable per se, but the bank is able to realize substantial profits by offering credit and other financial services (Meik Proescher, 16.09.2016, personal interview). Representatives of central banks, remittance agents of commercial banks and even representatives of international development banks also supported this fact in the Philippines and in Togo. A staff member of the Interamerican Development Bank (IDB) admitted that instead of addressing remittance directly, the IDB concluded that "an opportunity was to be able to offer people who receive remittances financial education, work with financial institutions so that they can offer them savings products that later serve to pay expenses or investment, as you want to see, in education, in health" (anonymous IDB staff member, 22.09.2016, personal interview). Furthermore, commercial banks often accept regular remittance income as a security for private loans and credits. Indeed, the

literature indicates that remittance can lead to increasing demand for private credit (Fromentin and Leon, 2019). However, this does not happen automatically and factors such as market concentration among commercial banks and inconsistent monetary policy (Barajas et al., 2018) as well as the personal preference of remittance senders (Brown et al., 2013) often counteract overall strategies of FOR. This points to the contested nature of FOR.

Second, banks and governments can redirect the remittance flow towards new financial products such as diaspora (direct of portfolio) investment schemes, transnational loans for special purposes such as housing (see e.g. Zapata, 2013), or larger diaspora bonds (Gelb et al., 2021). These products are particularly designed for diaspora members in order to finance development projects in home economies. A recent study found that more than 50% among 254 financial diaspora engagement projects are related to these different types of financial products. Twenty seven out of these can be understood as diaspora bonds (Gelb et al., 2021: 25). Diaspora bonds are particularly interesting as they change the direction of remittance flows. These bonds are debt securities that are issued by a government or a bank and bought by members of the diaspora who are willing to accept financial assets with lower interest rates than those offered by competitors. The issuer of the diaspora bond relies on the patriotic and philanthropic discount (Akkoyunlu and Stern, 2018: 58). This investment does not accrue to stay-behinds but to the issuer of the bond. Latin American economies but also the Philippines and some African economies have raised large sums of money through these processes (Terrazas, 2010; Kayode-Anglade and Spio-Garbrah, 2012). However, these finance mechanisms are still concentrated on a few countries usually highly dependent on remittances (Gelb et al., 2021: 25).

Finally, third, banks and governments can implement future-flow-securitization strategies for remittances (Hudson, 2008: 327; Hughes, 2011) which permits to treat future remittances as security and collateral to buy new credits on global financial markets. In this case, a novel financial product (special purpose vehicle, SPV) is created in offshore financial markets by an initial investor. This investor only needs the knowledge on how to create the SPV and the initial capital to do so. It can be a government, a domestic commercial bank, or even another legal entity. The borrower (e.g. the remittance-receiving bank) pledges its future inflow of remittances to the SPV, which in turn issues a debt for the bank. This way, before entering the economy of destination, remittance flows are channeled offshore through the SPV and the initial investors are paid out offshore by the SPV (see Ketkar and Ratha, 2001 for a detailed explanation). Remittance future-flow securitization depends on being channeled through a formal payment system, which increases the role of front-end and back-end infrastructures.

Future-flow securitization allows banks in the Global South to borrow international credits at much lower interest rates than their respective governments and therefore supports financial interests within remittance-receiving countries (Buchanan, 2017: 145). This is now even included in the joint World Bank/IMF Debt Sustainability Framework for low-income countries where remittance flows are accepted as a collateral for future credits (Nurse, 2018: 7). 15bn US\$ have been raised by this process in recent years in countries such as El Salvador, Brazil, Jamaica, Kazakhstan, Mexico, Peru, and Turkey (Ratha, 2010). It is estimated that for Sub-Saharan Africa, a 17 bn US\$ remittance flow can be used to securitize additional 2bn US\$ (Shimeles, 2010: 4). Again, the real extent of this third process is not yet entirely clear, as, on the one hand, data is difficult to access, and on the other hand, the COVID crisis shocked the remittance finance industry and many initiatives stopped in times of crisis.

However, it is already becoming apparent that through these measures, governments and banks are able to capitalize on remittance flows to access global financial markets at lower interest rates than their rating would allow. Hence, a second market is being created based on remittances in which varying actors and their corresponding strategies compete for access to and control over remittances. During this process, money is redistributed, and more money is created which does

not accrue to the initial sender or the final recipient of remittances. Therefore, intermediary actors gain access to and appropriate a share of the remittance flow.

Even though these processes are still in their infancy as well as still concentrated on economies highly dependent on remittance inflows, they demonstrate their enormous potential for FOR: this not only allows for changing the channel through which remittances run, but (re)orders and (re)places different actors and strategies in relation to the remittance flow and even creates a new financial flow out of the initial remittance flow. This process is not only a reconfiguration of different actors within the remittances circuit, but a new power geometry of development that has an enormous influence on the structure of North–South relations.

A new power geometry of development

This new power geometry has three structural effects: First, micro and macro realities of remittances drift apart. With the increasing significance of migrants and their money for the development process, the pressure upon senders to continuously remit increases. Given that remittances are mediated through currency exchange rates, the more difference in the international price of host and home currency, the more “value” the migrant can transact in the destination currency with the same amount of money transferred in the host economy’s currency. Ultimately, individual migrants benefit from higher exchange rates and by the subordinate role of their home economies within the world economy. Global inequalities in line with international currency hierarchies are therefore cemented. Second, FOR raises the incentives for elites in the Global South to incorporate themselves into the global remittance agenda and to access and appropriate remittances through finance. As a result, these elites can secure themselves against pressure from below since they are no longer held accountable for national political and economic conditions. Finally, FOR further individualizes the responsibility for development because due to the increasing importance of remittances, development is no longer a primarily collective or even national objective but the risk and the prospect of individual migrants and their families.

Amplification of micro/macro divergence of remittances

Remittances are not a new phenomenon and perhaps have always accompanied migration (Esteves and Khoudour-Castéras, 2011). However, a qualitative shift has recently taken place inasmuch as not only the volume of global remittances has increased significantly,⁵ but today, remittances finance the social reproduction of individuals, groups, and entire societies in the Global South (see e.g. Gammage, 2006; Warnecke-Berger, 2020). Within the international division of labor, some societies in the Global South such as El Salvador, Togo, or the Philippines completely specialized on exporting migrants.

Unlike other economic flows, such as commodity trade or foreign direct investment (FDI), remittances are subject to a very specific social condition. Remittances are often glorified as altruistic transfers or as risk-diversifying contracts within transnational families. However, this understanding of remittances implies a romanticized notion of family and non-market economies in which cultural factors, power struggles, social conflicts, and social stratification are absent.⁶ Furthermore, this notion ignores and neglects the moral and emotional pressure for both migrants and stay-behinds when negotiating, sending, and receiving remittances. However, it is this stress and pressure, and the emotional commitment as I will argue in the following, that produces remittances in the first place, and which therefore must be taken into account in order to analyze the macro effects of remittances.

I conceptualize this specific social condition of remittances as a translocal moral economy (Warnecke-Berger, 2017). The concept of the moral economy addresses social settings in which

economic behavior is embedded in non-economic landscapes of knowledge that are influenced by expectations of rights and obligations, gender, and class and which are characterized by power asymmetries and ridden by social conflicts. Actors involved in these contexts can manipulate, cultivated, capitalize on moral economies. Senders and recipients exchange economic claims, needs, and obligations as well as feelings such as guilt, love, and desire.⁷ The sending and spending of remittances are negotiated within these moral economies. Considering these factors, remittances can be alternatively defined as the outcome of the negotiated dependency within translocal moral economies between potential senders and recipients (Warnecke-Berger, forthcoming). Remittances are the result of claims on a share of the sender's income. This claim affects the sender's propensity to remit. Migrants are not able to definitely decide on how remittances are spent, and the home families are not able to ultimately determine the amount of money the migrant should remit. Both sides within the transnational relationship continuously negotiate how much, for what and to whose benefit to send money.

On a micro level, individual remittances tend to be volatile and likely produce a vicious cycle of economic instability for recipients (Amuedo-Dorantes and Pozo, 2012). If alternative economic opportunities are scarce—as they are in contexts of underdevelopment, marginality, and social exclusion—recipients can become dependent on remittances and then adjust their labor output to remittances (Cox-Edwards and Rodríguez-Oreggia, 2009). Remittances then become the dominant part of the income and remittance recipients are dependent on labor market dynamics abroad. On a macro level, in contrast, remittances usually are stable, counter cyclical to home economies' business cycles, and an ever-growing monetary macro flow (Buch and Kukulenz, 2010; Sayan, 2006). But they even differ from traditional economic flows such as FDI or trade in terms of magnitude and in terms of dynamics. Remittances often compensate for dependence on imports and negative trade balances and therefore permit to consume more than what was produced and sold before (Farzanegan and Hassan, 2019). Quantitatively, monetary transactions of migrants to their friends and families exceed global official development assistance multiple times and, in some economies, even FDI. Globally, remittances amount to even more than net revenues from oil exports of OPEC countries. However, the current corona crisis demonstrated harshly that this is not necessarily the case. A recent report expects world remittances to drop by around 20% during 2020 (World Bank, 2020).

In sum, the micro–macro divergence of remittances consists in the fact that remittances entangle different social realities with different effects at different scales. On the micro level, remittances depend on a specific condition, which I conceptualize as a translocal moral economy. There, remittances tend to be unstable and volatile and depend on negotiations within translocal moral economies. Hence, the recipient cannot be sure when and how much the migrant is able to send with the next transaction. On the macro level, in contrast, remittances appear as a stable financial flow, mainly from the Global North to the Global South. As an individual effect of securing livelihoods, remittances connect migrants and relatives in translocal moral economies. At the same time, and as an economic effect of the North–South divide, remittances connect the places of value generation in advanced capitalist societies with the contexts of underdevelopment in the Global South (Warnecke-Berger, 2019).

On the backdrop of FOR, this micro–macro divergence inherent to the remittance flow is amplified, and it is this amplification that has a major impact on the power geometry of development. On the one hand, the FOR increases pressure on migrants to sustain or even augment their propensity to remit in order to individually support their friends and families in home societies as migrants and their capacities to send money become increasingly entangled with national and regional development objectives. On the other hand, however, and on a macro level, this opens room of maneuver for the agency of migrants and remitters. The prevailing assumption about the motives to remit suggests that migrants are primarily interested in enhancing the welfare of stay-behinds (altruism) or in

diversifying the risk of households. The here presented particular understanding of remittances as the outcome of negotiated dependency, however, allows for alternative conclusions about the migrant's propensity to send remittances, since it embeds the translocal moral economy within global inequalities that are mediated through currency exchange rates.

In the case of altruism and risk-diversification, remittances should increase or at least remain at the same level in the host currency when the currency of the home economy devalues as the welfare effect multiples with the rate of devaluation. However, in the case of negotiated dependency, the monetary "value" of remittances is relatively high as long as the exchange rate between the home and the host economy's currency remains high or even increases. The higher the exchange rate, the more monetary value in the home economy's currency is thus effectively transferred expressed in the currency of the host economy.

The literature has rightly pointed to the potential effect called Dutch disease. In this case, and in the long run, the inflow of remittances leads to the appreciation of the economy's currency (Acosta et al., 2009). The effects of remittances in this regard are similar to other windfall profits such as natural resource rents. However, remitters are sensitive to currency exchange rates (Higgins et al., 2004), and it is this sensitivity and even the speculation with exchange rates that determines exchange rates in the short term (Kaltenbrunner, 2015). This sensitivity is crucial to understand the amplification of the micro/macro divergence of remittances: remitters react to exchange rate volatilities by adjusting the amount remitted.

Empirical investigations have shown that in the case of external currency exchange shocks, the monetary value of remittance flows remains stable in destination countries (and hence decreased in terms of the currency of the remitter; see Yang, 2008 for the case of the Philippines). Lueth and Ruiz-Arranz (2007: 12) show that in the case of India, "remittances fall when the exchange rate weakens: a one percent depreciation of the rupee against the dollar leads to a \$10 million to \$12 million (0.8 percent) reduction in remittances. Depreciation of the rupee reduces remittances, as migrants may be able to purchase the same goods basket with less dollars." This effect was also tested and verified for European and North African countries (Faini, 1994), and large-n studies come to the same conclusion (Bleaney and Tian, 2019).

An explanation including the micro-dynamics of remittances can be found in the dynamics of translocal moral economies: Remittances are usually negotiated in the currency of the stay-behinds as they make claims about their propensity to consume. The factual income of the migrant which initially appears in the host economy's currency often remains rather obscure for stay-behinds, and information asymmetries characterize the translocal moral economy (Ambler, 2015). In the context of short but strong currency depreciation in remittance-receiving economies and in the case of a relatively high share of local wage goods in household consumption, the negotiation of remittances in translocal moral economies continues in the currency of the receiving economy.

Determining factors for the monetary value of remittances are currency exchange rates. Deepening FOR then goes hand in hand with subordinating local currencies of remittance-receiving economies and therefore cementing and maintaining global inequality and international prosperity gaps expressed in currency hierarchies among remittance-sending and recipient economies.

As long as exchange rates are high, the remittance sender can be sure that his/her transactions count in home economies. In other words, the transaction counts even more, if exchange rates increase. Structural development of the home economy therefore would prevent future remittances since national currencies would eventually converge. The new power geometry of FOR therefore is not only based on global inequalities but even further cements them in undermining monetary counter strategies of the Global South. One effect is that net remittance-receiving economies increasingly adopt fixed currency exchange regimes by which asymmetric dependencies between remittance-receiving economies in the Global South and remittance-sending economies in the Global North are further reinforced, as a recent statistical analysis of exchange rate regimes

found (Singer, 2010). Dollarization in Ecuador and El Salvador and currency board systems in West Africa are examples that underline that strong remittance inflows tend to diminish the macroeconomic policy space of receiving societies.

The stabilization of elite rule in the global south

A second structural effect of the new power geometry of FOR is that it supports elite rule in the Global South. Traditional political and economic elites are able to self-modernize and to become “new Keynesian oligarchs” (Warnecke-Berger, 2020). As Keynesian oligarchy, I describe a new type of political and economic rule through which certain powerful groups—often traditional landholding and/or state elites—are able to control the economic context in which remittances emerge and through which remittances are channeled, both as transactions (hence FOR) as well as—and possibly more important—purchasing power. Within economies controlled by these new Keynesian elites, remittances are and only can be spent on products imported and offered by the elite, such as cinemas, hotels, food and restaurants, shopping malls, etc. Economically, then, these elites engage with the remittance sectors of the economy, and politically, they are able to emancipate from domestic political and economic conditions and to elude political control from below (Warnecke-Berger, 2019: 376).

In the first case, FOR economically provides traditional elites with the instruments to tap into remittances without interfering in translocal moral economies in order to “siphon” remittances from the senders and recipients (which usually are part of non-elite segments of the society). Many studies show that remittances are mainly spent raising the immediate consumption level and therefore on locally produced subsistence goods, such as food, clothing, and housing. When remittances further increase household consumption, more money is then spent on health care, education, and durable goods (Adams, 2011; Adams and Cuecuecha, 2010). FOR privileges traditional elites in the Global South willing to modernize their own economic basis and to control the local banking and finance sectors or to grow into commodity chains and networks that supply remittance recipients’ households with commodities. Examples of these dynamics can be found in El Salvador in Central America (Warnecke-Berger, 2018: Chapter 3) as well as in the Philippines in Southeast Asia (Kreuzer, 2012; McCoy, 2009; Rodriguez, 2010). In these societies, traditional landholding elites (self-)modernized to such an extent that they control the remittances sector of the economy, sometimes even abandoning their estates. FOR therefore shifts away the elite economic interest from controlling production towards controlling trade and consumption.

In political terms, then, these new Keynesian and remittance-induced oligarchies are no longer held accountable for domestic economic and political problems. Empirical studies underscore this trend by highlighting that remittances often tend to substitute government social spending (Doyle, 2015), crowd out public finances (Ambrosius, 2019), promote a shift from direct taxation towards value-added taxes (Asatryan et al., 2017), and deteriorate governance (Ahmed, 2013). In the case of El Salvador, for instance, remittances produce ultrastability for the rich but chaos for the poor, because they undermine political expressions of this structural conflict (Warnecke-Berger, 2020). While these Keynesian oligarchs have become parasitic on remittance flows through FOR, they transnationalized their scope by withdrawing from the exclusively domestic sphere of production. Subaltern groups, and very often the senders and recipients of remittances, then are forced to localize their political means and to further “specialize” in migrating and recruiting remittances. Within economies dependent on remittance inflows, the economic means of subsistence of households depends on translocal moral economies with their respective migrants. Their livelihoods no longer depend on the local sphere of production within the local economy usually set and maintained by traditional elites, but on the integration of migrants into foreign labor markets and their ongoing propensity to remit. Consequently, the ruling class does no longer appear as an

addressee for political claims expressed by subaltern groups. As an effect, this new type of elite tends to gain larger autonomy vis-à-vis society. The new power geometry of FOR then indirectly (by changing the articulation of social conflicts in remittance-receiving economies) as well as directly (by incentivizing processes of modernization of traditional elites) supports elite rule in the Global South.

Further individualization of development

While historically, the political articulation of North–South relations often developed at regional and international levels, such as the Non-Aligned Movement, the Group of 77, or even efforts to push for higher commodity prices such as OPEC (Braveboy-Wagner, 2009), remittances rather fragment this political articulation. Within this new power geometry of remittance-induced North–South relations, development is no longer a “national” objective but the individual risk of migrants and their relatives and friends (Datta, 2017). Development then becomes an individualized matter because individuals—senders and recipients of remittances—are held accountable and, moreover, hold themselves accountable for future well-being and development (Kunz, 2011). Remittance senders and receivers are increasingly understood as financial subjects who have access to global financial markets and who are responsible for development processes (Hernandez and Coutin, 2006; Schwittay, 2011; Zapata, 2013; Kunz et al., forthcoming).

FOR therefore adds an international dimension to the individual level since migration and remittances have been framed as key development tools by think tanks, task forces, and other institutions such as the World Bank Migration and Remittance Task Force, the Global Compact on Migration (GCM), or the Global Knowledge Partnership on Migration and Development (KNOMAD) (Bakker, 2015a). FOR reinforces and strengthens global neoliberalization and, just as the preceding migration-for-development discourse, it serves to obscure the underlying power relations that underpin global uneven development (Delgado-Wise et al., 2013).

However, and this might be an even more perfidious process, in the shadow of this discursive re-framing, the North–South divide shifts to within the realm of and manifests within transnational families. North–South relations and the structural foundation based on which these relations emerge—global inequalities—are now negotiated on an individual level, mediated through translocal moral economies—within families and closer kinship networks. This setting even intensifies as soon as remittances are not only the basis for the individual social reproduction of migrants and their families, but for larger groups and entire societies, as it is already the case in societies that adopted the remittance-led development model. As soon as entire economies redefine their comparative advantages within the international division of labor in favor of outbound migration, considerable parts of the population virtually depend on the migration-remittances sector, and the migrants’ propensity to remit is the only asset of which these societies dispose. In this setting, future well-being depends on future remittances which in the end depend on the ongoing and future propensity of migrants to remit money back home. Development strategies based on FOR thus not only revalue translocal moral economies and turn transnational families into the backbone of development but furthermore transfer the arena in which development is produced and negotiated into the realm of transnational families. As an effect, migration accelerates in order to maintain the remittance-led development model. From the year 2000 until today the number of migrants living abroad continuously increased; in El Salvador about 168%, in the Philippines about 194%, and in Togo around 199% (own calculations from UNPD, 2019).

Stabilizing macro remittance flows as a development tool thus implies the need for a simultaneous increase in the volume of migration since the individual propensity to remit usually stagnates or even declines with continuing settlement abroad (Waldinger, 2008). In this context, FOR stabilizes both remittances and migration flows, because the “value,” and particularly the future “value”

of financial assets that had been securitized on the basis of the migration-remittances-flow depends on the ongoing practice of remitting and hence on ongoing migration. Although institutional settings that FOR provides are likely to stabilize remittance flows, remittances are still subject to the transnational family bond negotiated within translocal moral economies.

This new power geometry fabricates a particular notion of “good” development through remittances. By the same token, however, it obscures the fact that through FOR agents other than the senders and recipients appropriate and redistribute money. It generates a new understanding of what development means. In the background, however, North–South relations as the pivotal expression of global inequalities remain manifest within the realm of transnational families. In this regard, remittances can both be seen as an expression and as an individualized compensation for these inequalities. Thus, while the new power geometry of FOR furthers individualized notions of development, the migrant’s propensity to remit is subject to political pressure.

Conclusion

For a long time, remittances have remained the domain of private transfers within transnational families. Today, these transactions attract the attention of communal, national, and international political and economic actors. Their engagement finds expression in an emergent global remittances agenda that links FOR to development. Many development theorists as well as practitioners expect enormous potentials for development from this agenda and it has become a new “development mantra” (Kapur, 2004). Initially, this development mantra was based on the idea of strengthening the impact of remittances at the places where remittances are spent. Over time, however, these strategies of channeling remittances directly into development proved to be unfruitful, as an anonymous senior researcher of the Inter-American Development Bank explained to in a personal interview in Washington D.C. in 2016. This was the door opener for finance, and the general line of argumentation of the development mantra increasingly focuses on the role of financial instruments and strategies, such as financial education, financial literacy, or financial inclusion, to tackle remittances and to manage development.

Scrutinizing FOR, this article has argued that the new emerging power geometry of development and North–South relations has three important impacts: First, it creates a huge burden for migrants because migrating subjects and their families and friends are the backbones of today’s development strategies inscribed in strategies of FOR. Second, FOR tends to stabilize elite rule in the Global South. Third, FOR further individualizes development and reproduces North–South relations within transnational families. This new power geometry of remittances rather atomizes societies in the Global South and thus eludes political counter-strategies.

The new power geometry that evolves out of FOR therefore challenges existing notions of development and North–South relations. However, this new power geometry rather cements inequalities within societies of the Global South as well as global inequalities at the level of North–South relations. While this FOR induced power geometry seemingly renders remittance-induced development inevitable, necessary, and equitable because all allegedly win from FOR, this article stresses that it needs to be understood as a rather de-socialized, non-relational, and reductionist vision of development.

By focusing on the ongoing emergence of FOR and the evolving power geometry of remittance-induced development, the article argues that the focus on (re)distribution remains crucial because some benefit more—international development organizations, intermediary actors, and banks—some benefit less, if at all, such as large amounts of migrants for whom migration and remittances remain among the few opportunities to secure their own and their families’ livelihoods.

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Notes

1. While the first strand, mainly rooted in heterodox (political) economy, focuses on macro-processes of financialization on an economy-wide level (Karwowski et al., 2017), the second body is concerned with the level of the firm and researches the interactions between real sector corporations and their relations to the financial sector (Krippner, 2005). Finally, a third strand concentrates on the individual and household level thereby highlighting the role of household debt (Barba and Pivetti, 2008) and often elaborating on a broader culturalist perspective on the development of financialized subjectivities (Langley, 2007).
2. From a post-Keynesian perspective, this first form of financialization is related to the Keynesian credit multiplier on financial markets. Through financialization, this multiplier has escaped from political control and consequently, financial markets have been fueled with money that has escaped the real economy in its search for the highest return. Root causes then are not only technical issues in the financial system or financial deregulations but income inequality and excessive saving that is not spent on investment (see e.g. Hein, 2012).
3. Retail payments are usually low-value payments between economic actors. These payments account for most of the overall payments within an economy, but only a small share of the total value of total payments (BIS, 2014: 4).
4. According to the Global Findex Database maintained by the World Bank, bank account ownership increased during 2011 and 2017 in the Philippines about 129%, in El Salvador about 220%, and in Togo about even 444%. This increase is almost three times the average of low- and middle-income countries and underlines how remittances are related to finance. Likewise, the use of formal remittance channels increased from less than 70% in 2000 to more than 98% in 2020 in El Salvador, according to data provided by the Banco Central de Reserva de El Salvador (BCR).
5. Something that also can be attributed to different methodical measurement techniques and their change over time (Bakker, 2015b).
6. Narrow economic perspectives tend to conceptualize remittances as altruistic, as contracts, or as an effect of competition. These approaches focus on rather strong assumptions about behavior of individuals under the imperative of (capitalist) markets (Lucas and Stark, 1985; Stark and Bloom, 1985). These pure economic perspectives tend to ignore the social practice of remittances.
7. More and more, the literature adopts sociological and anthropological perspectives. Within this discussion, remittances are seen as a relationship that not only includes financial and monetary issues but in addition to that gender, class, kinship, and ideology. This includes a shift towards the transnational family including intra-household dynamics and processes of household decision-making (see for instance Åkesson, 2011; Baldassar et al., 2007; Carling, 2014; Paerregaard, 2014).

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