

**Migration and remittances in times of recession:
Effects on Latin American economies**

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Introduction¹

The report shows that in 2009 immigrants from Latin America and the Caribbean will remit **US\$64 billion, down from US\$69 billion in 2008**. Moreover, it shows that in 2009, as the crisis worsens, **migrants will reduce their flows by as much as 7 percent** due to job losses, lower earnings, and slower migration (including continued deportations). This decline is far less damaging than what is expected from diminished exports, yet it is not negligible. The study is based on an analysis of the impact of the economic downturn on family remittances and the subsequent effect that such an impact is expected to have on Latin American economies.

Specifically, we find that in 2008, migrants relied on their savings in order to maintain a sustained rhythm in the sending of money to their families. However, in 2009, nearly **one million people will not remit, only 40 percent of those unemployed will continue to remit, and 25 percent of those employed will remit 10 percent less than in 2008**. The implications of the crisis for Latin American economies are manifold. First, **about one million households who previously received remittances will not receive money in 2009, and another four million will receive 10 percent less**. This means that, overall, these households will lose a significant source of their earnings ranging from 7 percent to 65 percent of all income.

This study foreshadows a policy and program analysis that aims to mitigate the effects of the downturn on declining remittances in remittance receiving countries. Despite continued policy recommendations and initiatives on leveraging the flow of family remittances to expand financial access, these efforts have not been enough. However, policy changes can still be made to mitigate the negative effects of any decline in flows, such as motivating migrants to invest back home, increasing financial literacy among migrants and relatives, and offering greater financial services to remittance senders and recipients.

This report looks at the impact of the economic downturn on migrants, remittances and Latin America by using primary data analysis resulting from surveys conducted by the author and other statistical sources. The analysis uses statistical and survey data from the U.S. as well as household surveys carried out in Latin American countries.²

¹ Research assistance provided by Tim Cheston, IAD.

² See appendix for a detailed description of the surveys utilized.

1. Economic downturn and effects on immigration

Like most people, migrants have been affected by the global recession. Migrants have lost their jobs, have earned less and/or were direct victims of the housing crisis. While some countries, such as Spain³, have felt a higher degree of impact than others, migrant communities overall have suffered equally.

a. The global economic downturn and its effects on migrants

The United States and Western Europe in particular stand in the midst of the worst economic crisis in contemporary history. Some of the factors leading up to the current crisis are associated with the increased lending with little regulatory oversight, particularly in the housing markets, which spread financial risk to a range of instruments that lacked proper capital backing.

One result was the vanishing of leading investment banks, which produced a severe credit crisis and prompted the U.S. government to seize some financial institutions and introduce financial recovery schemes. As a result, access to the critical loans that many consumers, businesses, and even entire industries rely on has declined. The impact of the liquidity crisis has had global repercussions, strongly hurting the real sector of the economy in need of credit in order to operate and has led to low growth projections for 2009 and 2010.

Table 1: Growth projections among leading industrial economies (%)

	2007	2008	2009	2010
Germany	2.5	1.3	-2.5	0.1
France	2.2	0.8	-1.9	0.7
Italy	1.5	-0.6	-2.1	-0.1
Spain	3.7	1.2	-1.7	-0.1
Japan	2.4	-0.3	-2.6	0.6
United Kingdom	3	0.7	-2.8	0.2
Canada	2.7	0.6	-1.2	1.6
United States	2	1.1	-1.6	1.6

Source: IMF, World Economic Outlook, January 2009.

According to the World Bank, in 2008 an estimated 130-155 million people fell into poverty amidst sharply rising food and fuel prices and up to 53 million additional people could be pushed into poverty due to weaker economic growth in 2009.⁴

³ Spain's economic growth model relied heavily on construction and therefore foreign labor, which comprised a disproportionate share of the construction industry. When the real estate crisis hit Spain, migrants suffered the most.

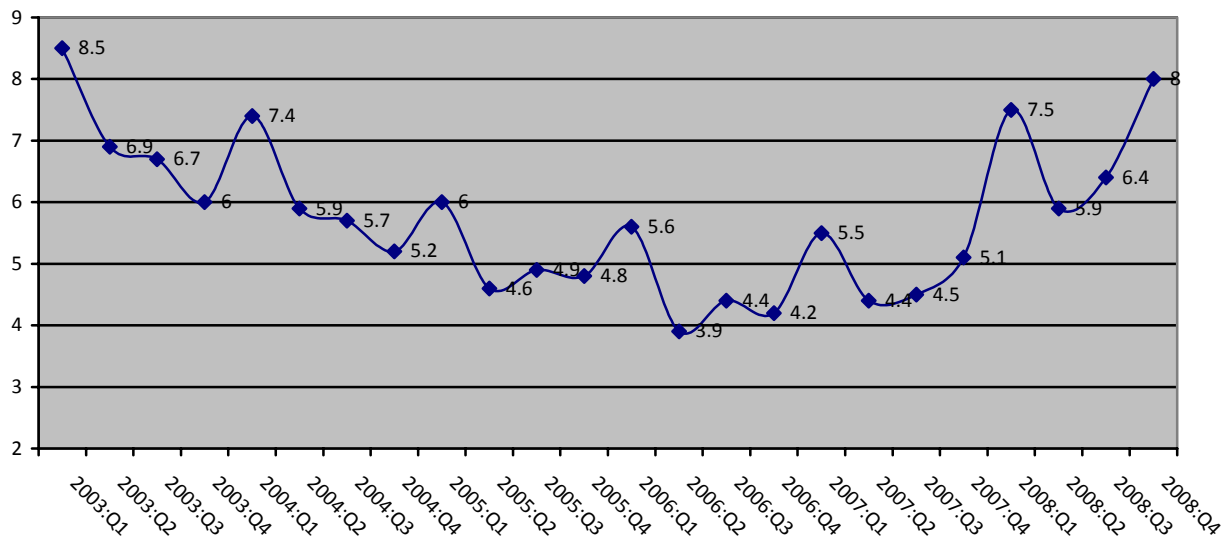
⁴ The World Bank, 2009.

The resulting picture brings up questions about the prospects for increased remittances amidst the dismal economic and employment projections. This situation also raises questions about how immigrants have been affected by the recession and how they have responded to it. The next section seeks to explore this particular issue.

Impact of the economic crisis on migrants⁵

When analyzing how the global crisis is affecting migrants, looking at the United States is a point of departure as it is the place where 65 percent of Latin American migrants are based and where 75 percent of remittances come from. The U.S. economic recession has affected all workers, migrants included, skilled or unskilled. Comparing unemployment rates of Latino⁶ immigrants from the onset of the crisis in the fourth quarter of 2007 to the fourth quarter of 2008, unemployment has risen from 5.1 to 8.0 percent. This 2.9 percentage point rise is a similar rate to that of the previous recession, as shown in Figure 1.⁷ By comparison, the unemployment rate of all workers in the U.S. has increased from 4.6 to 6.6 percent or by 2.0 percentage points in the same period. In Spain, statistics are inconclusive, but one recent estimate finds 350,000 job losses among migrants and a 17 percent unemployment rate.⁸

Figure 1: Unemployment Trends among Latino Immigrants in the United States (%)



Source: Current Population Survey Data adjusted for yearly changes.

In the United States, although foreign-born workers maintained lower unemployment rates than the general workforce before the crisis, immigrants have recently faced

⁵ Most of this section draws its analysis from data on U.S. economic trends and its effects on migrants.

⁶ The terms “Hispanic” and “Latino” are used interchangeably in this report.

⁷ R. Kochhar. Feb 2009.

⁸ J. Sainz-Madrid, 2009. Deutsche Welle, 2008.

relatively higher unemployment rates. This is partly because the economic sectors where they worked, such as construction, were those most affected by the downturn.

In terms of unemployment rates, immigrants from Mexico and Central America have suffered disproportionately worse than foreign-born and native-born workers. Between the third quarters of 2007 and 2008, unemployment rose from 4.5 to 7.0 percent for workers born in Central America and from 4.3 to 6.3 percent for workers born in Mexico.⁹ Overall, foreign-born Hispanics were found to have the highest percentage increase in unemployment rates among all groups in the United States in this period.

In the economic sectors that have been most affected by the recession, immigrant workers, particularly from Mexico and Central America, show a greater concentration of employment than native-born workers. Over a one-year period starting in November 2007, the 15 non-farm industries with the greatest job losses employed about 21 percent of native-born workers, as compared to 30 percent of foreign-born workers.¹⁰ Moreover, 43 percent of workers from Mexico and Central America are employed in those industries, as shown in Figure 2.

While the rising wave of unemployment has swept through most economic sectors, construction jobs have seen the greatest relative loss for Hispanic and non-Hispanic workers, native- and foreign-born alike. From the onset of the crisis in the fourth quarter of 2007 to the fourth quarter of 2008, the already reeling construction sector shed an additional 283,000 jobs for foreign-born Hispanics, or 13 percent of the total.¹¹ Between the same periods, foreign-born Hispanics witnessed a dramatic employment decrease in durable goods manufacturing with a loss of 93,000 jobs, or 10 percent of the total. Conversely, while native-born Hispanics actually gained 32,000 jobs over the same period.

While immigrants may suffer in higher numbers from the crisis, they also show a greater ability to adapt to changing labor market conditions. In particular, immigrants show a greater willingness than native-born workers to change job sectors or move to another place of residence for work. Construction and durable goods manufacturing sectors aside, Hispanic workers have actually seen job growth over the rest of the economy, with the greatest gains in professional and other business services (61,000 jobs), educational services (52,000 jobs), and restaurant and hotel services (39,000 jobs) between the fourth quarters of 2007 and 2008.¹²

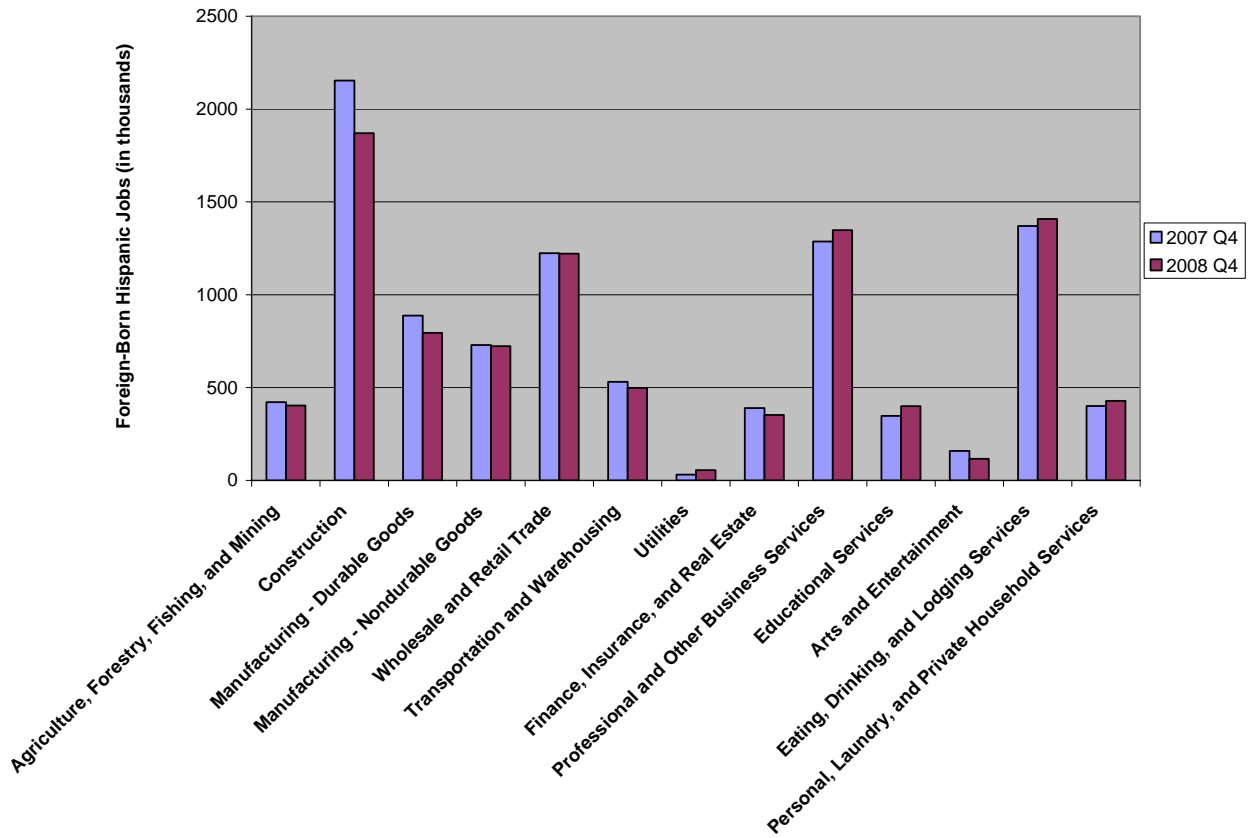
⁹ R. Kochhar. Dec 2008.

¹⁰ D. Papademtriou et al. 2009.

¹¹ R. Kochhar. Dec 2008.

¹² Current Population Survey Data adjusted for yearly changes

Figure 2: Changes in Migrant Employment for Select Economic Sectors



Source: Current Population Survey Data adjusted for yearly changes

When comparing surveys of migrant remitters from 2007 and 2008, a similar picture results.¹³ As table 2 shows, construction lost the top spot as the leading occupation of migrant remitters from 2007 to 2008. Other occupations related to the housing market, such as painting, showed similar losses in the survey comparison, while employment in restaurants and cleaning services increased.

Table 2: Changes in Occupation of Migrant Remitters in Washington D.C: 2007 to 2008

Occupation	2007 (%)	2008 (%)
Cleaning Person	12.9	19.2
Construction	19.4	17.8
Cook	14.5	17.4
Waiter	4.3	7.2
Babysitter	7.5	6.9
Painter	6.5	5.1

Source: Orozco Supplemental Survey of Latino Migrants, 2008; Orozco Survey of Latino Migrants, 2007.

¹³ The sample size of the 2007 survey is 1,250 people and the sample size of the 2008 survey is 800 people. See appendix for more details on the surveys.

In nationwide surveys, the majority of migrant remitters judged their employment situation as being unstable, although responses vary widely by country of origin. Mexican immigrants showed a high degree of perceived job stability (71 percent felt stable), while respondents originally from Bolivia and El Salvador felt differently. Similarly, a higher share of women also judged their jobs to be unstable (61 percent felt unstable) compared to men (48 percent felt unstable).

Table 3: Perceived Job Stability by Gender and Country of Origin

	<i>Unstable Jobs (%)</i>
Men	48
Women	61
Total	54
Bolivia	86
Colombia	45
Dominican Republic	66
El Salvador	85
Guyana	12
Mexico	29

Source: Orozco Supplemental Survey of Latino Migrants, 2008

The economic crisis also affected most workers by decreasing real earnings of the past year. The median wage of Latino immigrants who arrived since 2000 actually decreased by 5.2 percent between the third quarters of 2007 and 2008.¹⁴ Conversely, migrants who arrived from 1990 to 1999 saw their median income increase by 4.5 percent over the same period. The latter group also saw a significant decrease in their employment, working-age population, and labor force size over the same period, finding which support claims that the increase in the median wage of foreign-born Hispanics is illusory.

Hispanic immigrants have been doubly affected by the crisis in the U.S. housing market in terms of employment and also with respect to their housing situations, though the breadth of impact of the latter is often overstated. Leading up to the housing bubble, only a very small percentage of immigrants (5 percent) gained access to financing to buy a house, which helps explain why less than half of all immigrants (45 percent) own their own home, as compared to 60 percent of people in the U.S. as a whole.¹⁵

While the mortgage crisis affected a small breadth of people, it was undoubtedly more severe on Hispanic immigrants. When the Federal Reserve dramatically reduced interest rates after the 2001 recession, many Hispanics took advantage of the opportunity to buy

¹⁴ R. Kochhar. Dec 2008.

¹⁵ M. Orozco. 2008.

a home, without understanding the implications of buying overvalued properties priced beyond their income range at interest rates prone to future fluctuations. Hispanics as a whole suffered from a lack of banking and credit history and were thus highly vulnerable to abuse by lenders who often steered them to subprime, exotic, or generally high-risk loans despite qualifying for better rates. Overall, Hispanics were twice as likely as whites to receive highly predatory option-adjustable rate mortgages (ARMs) and 30 percent more likely to receive high-cost mortgages.¹⁶ A report by the Center for Responsible Learning estimates that one in 12 mortgages given to Hispanics in 2005 and 2006 will result in foreclosure. The threat of foreclosure puts at risk not only their housing conditions, but a generation of Hispanic wealth.

Public policies will likely not lessen the negative effects of the crisis for immigrants. Welfare reform has excluded recent undocumented immigrants who lack citizenship from accessing major federal benefit programs, such as food stamps and cash welfare. While many large states, including California, New York, Texas, Florida, Illinois, and New Jersey, have overturned this change, many critical public assistance programs, particularly those for unemployment and underemployment, are prohibited for recent legal immigrants. In general, unauthorized immigrants are ineligible from all federal benefit programs and services except for a few emergency services.

In addition to the recession, immigrants have been affected by and increased anti-immigrant sentiment and deportations. Immigration enforcement has risen sharply over the past five years as indicated by enhanced border security and increased deportations. Over the past five years, the number of U.S. deportations has risen by 50 percent. In 2007, nearly 320,000 people were deported, 96 percent of whom originate from Latin America and the Caribbean.¹⁷ The share of persons removed based on criminal charges or convictions varied widely by region. Central America had a low level of criminal removals relative to their total share, while the Caribbean had the highest, led by the Dominican Republic at 71 percent. By 2008 the number of deportations had risen to 359,000. Central America has seen the highest increase in the rate and number of deportations. Deportations of persons from El Salvador, Guatemala, Honduras, and Nicaragua have jumped more than three-fold from 2003 to 2007, with the majority of the increase resulting from non-criminal reasons.

¹⁶ Janet Murguia, president of the National Council of La Raza (NCLR) in E. Moscoso. 2008

¹⁷ All deportation figures come from U.S. Department of Homeland Security. Deportable Alien Control System (DACS). 2007. The number of deported people from 2003 to 2008 stands at over 1.5 million people.

Table 4: Number of Deportations by Region and Country: 2003 to 2007

	2003	2004	2005	2006	2007	2007 Criminal Removal ¹ (%)
Caribbean	7,637	8,544	8,067	6,515	6,763	63
Central America	23,144	27,686	40,773	62,298	79,060	18
North America	156,814	177,401	170,629	188,151	210,259	36
South America	9,990	13,618	14,535	12,103	11,988	23
U.S. Total	211,098	240,665	246,431	280,974	319,382	31
Costa Rica	514	599	676	795	655	12
Cuba	76	465	730	124	76	42
Dominican Republic	3,472	3,760	3,210	3,107	2,990	71
El Salvador	5,561	7,269	8,305	11,050	20,045	23
Guatemala	7,726	9,729	14,522	20,527	25,898	13
Honduras	8,182	8,752	15,572	27,060	29,737	17
Mexico	155,812	175,865	169,031	186,726	208,996	36
Nicaragua	820	947	1,292	2,446	2,307	22

1 Refers to persons removed based on a criminal charge or those with a criminal conviction.

Source: U.S. Department of Homeland Security. Deportable Alien Control System (DACs), July 2008, Enforcement Case Tracking System (ENFORCE), October 2007.

Increased border enforcement and continued immigration raids have also affected remittance sending. In the 2008, one-third of migrant remitters stated that immigration raids and other similar actions (police officers and businesses requesting IDs, etc.) affected their sending of remittances. Women felt more affected than men (38 and 29 percent, respectively), though greater differences correlated with the country of origin. While respondents sending to Colombia and the Dominican Republic were the least affected by immigration raids, there was a high level of impact among Bolivian and Salvadoran remitters.

Table 5: Effect of Immigration Raids and Similar Actions on Remittance Sending:

	<i>Respondents Whose Remittance Sending Has Been Affected (%)</i>
Men	29
Women	38
Total	33
Bolivia	71
Colombia	3
Dominican Republic	8
El Salvador	63
Guyana	14
Mexico	27

Source: Orozco Supplemental Survey of Latino Migrants, 2008

The effect of anti-immigration raids are felt indirectly, mostly as real psychological, intimidating acts that have raised fear on the migrant population. In some cases people argue that they have moved out of the places where they were living (15 percent) or visit less frequently the locations where they remitted (nearly half).

2. The impact of the downturn on remittance transfers in 2008

Changes in migrant employment, earnings, and housing along with enhanced immigration enforcement, have translated into fluctuations in the flow of money to the home country. Here we analyze those dynamics and show that remittances started to show decreased growth in 2007 and almost no growth in 2008. In real terms, only 40 percent of unemployed migrants were remitting and, overall, all remitters were sending 5 percent less than their typical amounts. However, despite these changes, the aggregate volumes per year did not register a decline in relationship to 2007. We speculate that migrants used their savings to cope with this situation.

a. From continued growth to deceleration

The relevance of remittances in the development and economic policy contexts was initially underscored by the large volumes of money going to Latin America and the Caribbean. This flow of money emerges in particular as a function of greater foreign labor mobility on a global scale. International migration has grown significantly since the late nineties and has diversified into different world locations, with greater mobility to the European Union, Spain in particular.

One measure of this international mobility has been the growth and rhythm of remittance transfers. However, these measures have proven relatively inaccurate. The capacity for Central Banks to measure remittances has been relatively weak, lacking methodologies and fieldwork experience on migration and family money transfers. In turn, some data has not been fully reliable or robust as its methodologies are yet to be strengthened.¹⁸ However, many banks have been improving their methods and as a result have been making more accurate assessments of migrants and money flows.

Overall, our research has shown that on average 65 percent of migrants (with a range of 50 to 80 percent) remit to their families, amounting to over 20 million people sending money. While the flow of transfers as reported by official sources shows significant growth from 2001 to 2008, most of that growth relates to statistical improvements in the measure of remittances. This issue is particularly important because ignoring it causes bias in the assumptions about trends in migration and remittances. For example, the principal amount transferred has shown relatively little variability, rarely fluctuating more than 5 percent during that period. Similarly, international migration has not exceeded more than 10 percent a year. Thus, most of the growth reported reflects factors aside from actual act of remitting.

¹⁸ For a review of methodologies in measuring remittances see Millis and Orozco, 2008.

Table 6: Remittances to Latin America and the Caribbean, 2001 – 2008 (selected countries)

Countries	2001	2002	2003	2004	2005	2006	2007	2008	Migrants	% GDP	Avg. Remitted per transaction
Argentina	100	184	225	270	780	850	920	955	318,333	0.34	250
Belize			73	77	81	93	100	110	45,833	8.30	200
Bolivia	103	104.2	340	421.6	860	989	1050	1097	507,417	8.06	180
Brazil	2600	4600	5200	5624	5793	7373	7166	7200	750,000	2.29	800
Colombia	1756	2431	3067	3857.307	4126	4200	4521	4842	1,513,095	2.31	267
Costa Rica	80.25	134.82	306	320	400	520	582	624	186,298	2.34	279
Cuba	930	1138.5	1194	1194	1100	1000	1000	1200	583,333	2.29	200
Chile							800	880	333,333	0.52	220
D. Republic	1807	2111.5	2216.55	2438.205	2560	2747	3120	3148	1,204,375	7.47	218
Ecuador	1430	1575	1657	1740	1827	2893	3118	2822	682,030	5.87	345
El Salvador	1911	220	2316.3	2548	2830	3316	3695	3788	878,748	18.35	359
Guatemala	584.3	1690	2106	2680.7	2993	3610	4128	4315	919,578	12.75	391
Guyana	90	119	137	143	260	270	423	415	206,834	36.73	167
Haiti	810	931.5	978	1026	1077	1100	1650	1870	1,277,626	30.01	122
Honduras	460	770	862	1134	1763	2359	2561	2707	930,874	21.60	242
Jamaica	967.5	1229	1426	1497	1651	1770	1860	2034	1,227,754	17.95	138
Mexico	8895	10502	13266	16613	20034	23053	26075	25145	5,646,015	2.47	371
Nicaragua	660	759	787.5	809.55	901	950	960	1056	691,253	18.13	127
Panama			220	231	254	292	340	325	108,333	1.55	250
Paraguay				506	550	650	750	700	191,538	5.68	305
Peru	930	1265	1295	1360	2495	2869	2900	2960	1,469,662	2.56	168
Suriname				50	55	102.3	115	120	40,000	6.16	250
T. & Tobago	40.9	58.5	88	93	97	110	125	130	43,333	0.64	250
Uruguay			42	105	110	115	115	130	43,333	0.51	250
Venezuela	136	235	247	259	272	300	331	832	424,119	0.35	163
LAC	24290	32045	38048	44997	52868	61531	68405	69605	20,223,049	0.34	280
R. Growth		32%	19%	18%	17%	16%	11%	2%			
Countries	19	19	22	24	24	24	25	25			

Source: Central Banks, and IADB. GDP: ECLAC, 2009. Migrants: Global Migration Database, 2007; Remittances: survey data and ECO, 2008. Annual remittances in millions.

However, between 2006 and 2008 those countries whose remittance methodologies have been more consistent began to display smaller growth, showing a 1.3 percent year-on-year growth in 2008, particularly in Mexico (See table 7).¹⁹

¹⁹ It is important to observe that Mexico's remittance statistics have been difficult to assess. The Central Bank revised its statistics for remittances in 2007 from nearly \$24 billion to \$26 billion without providing an explanation, which in turn has affected estimates on growth for 2008.

Table 7: Year on Year Growth of Remittances by Quarter, Selected Countries (%)

	Q1-2006	Q2-2006	Q3-2006	Q4-2006	Q1-2007	Q2-2007	Q3-2007	Q4-2007	Q1-2008	Q2-2008	Q3-2008	Q4-2008
Mexico	28	21	15	10	3	-1	5	1	-3	-1	-8	-2
El Salvador	25	16	12	9	8	7	8	3	6	7	3	-5
Guatemala	20	21	27	14	12	13	17	15	10	8	6	-5
Honduras	39	43	28	22	7	5	9	4	9	13	6	3
Nicaragua	13	13	19	9	-5	8	6	15	22	14	9	0
Colombia	17	27	14	12	11	-2	23	29	20	19	10	-12
Ecuador	9	17	23	27	3	9	7	3	12	-8	-13	-22
Jamaica	4	8	7	10	8	10	12	14	12	11	4	-10
Dominican Republic	11	19	18	6	18	11	7	9	5	5	5	-5
Total 9 countries	23	21	17	11	6	3	8	6	4	3	-2	-5

Source: Central Banks, author's estimates.

The slow growth reported coincides with migrant surveys documenting their sending habits. When asked whether they were sending more, less, or the same amount of money as they had in 2007, the large majority of respondents (84 percent) indicated they were sending the same amount. Notably, of those changing their remittance amounts, an equal share (8 percent) said they were sending more money as those sending less money. The most prominent reasons for changing remittance levels were the weakness or instability of the U.S. economy (45 percent), increased family needs (23 percent) and higher earnings (12 percent).

Looking at individual countries, migrant remitters from Bolivia and El Salvador were the least likely to change their remittance levels, as 100 percent and 98 percent of respondents, respectively, stated they were sending the same amount of remittances as they had the previous year. Conversely, nearly half of all respondents from Guyana changed their sending patterns from the previous year, with 25 percent sending less and 24 percent sending more. The large majority of migrant remitters from Mexico (87 percent) did not change their remittance amounts. Of those who changed the amount they sent to Mexico, a larger share (8 percent) said they increased their remittances compared to those who stated that they sent less (5 percent).²⁰

²⁰ We have shown in other reports that migrants have increasingly shifted their method of sending remittances away from agent-to-agent transfers toward using account-to-account transfers, which are not recorded properly by the Central Bank of Mexico. Moreover, in 2009 the number of Mexicans interviewed who claimed to have a checking account rose to 63%, up from 58% in 2008.

Table 8: Changes in Remittance Levels from 2007 by Country of Origin (%)

	<i>Sending More</i>	<i>Sending Less</i>	<i>Sending the Same</i>
Mexico	8	5	87
Dominican Republic	15	14	71
El Salvador	1	1	98
Colombia	6	3	91
Bolivia	0	0	100
Guyana	24	25	51
Total	8	8	84

Source: Orozco Supplemental Survey of Latino Migrants, 2008

Country surveys of remittance recipients have also found a high degree of stability in remittance flows. In Cuba, remittance recipients in early 2009 actually show a higher rate of sending the same amount or more as the previous year, compared to the same survey in 2005. In 2009, 82 percent of the sample was receiving the same level of remittances as in 2008, 11 percent was receiving more, and 7 percent was receiving less. The proportion of people receiving the same amount has risen dramatically while the share of people receiving less has dropped dramatically since 2005. In a survey conducted that year, only 58 percent received the same amount and 29 percent received less than they had in 2004. Cubans were also receiving the same amount of remittances per transaction in 2009 as 2005, \$150 on average, although the number of times the average remitter sends money annually has risen from 6 to 8 over the period.²¹

Understanding changes in remitting in 2008

Although migrants stressed that they sent circa the same amounts as in 2007, on the aggregate, migrants remitted less due to unemployment increases and drops in earnings. We find that these differences may be reconciled by the use of migrant savings to compensate for their lost earnings and family obligations.

First, remittance data from money transfer companies showed that migrants remitted 5 percent less than their typical transfer amounts.²² Second, we learn that not all of those unemployed stop remitting. Our October 2008 survey data showed that among unemployed immigrants, 40 percent continued sending money.²³ However, unemployment growth in many of the countries where migrants reside had a particular effect on foreign-born populations. Unemployment at the end of 2008 is said to have reached 17 percent among migrants in Spain, and 8 percent among Latinos in the U.S. Third, during that period we observed a decline in the stock of savings among migrants.

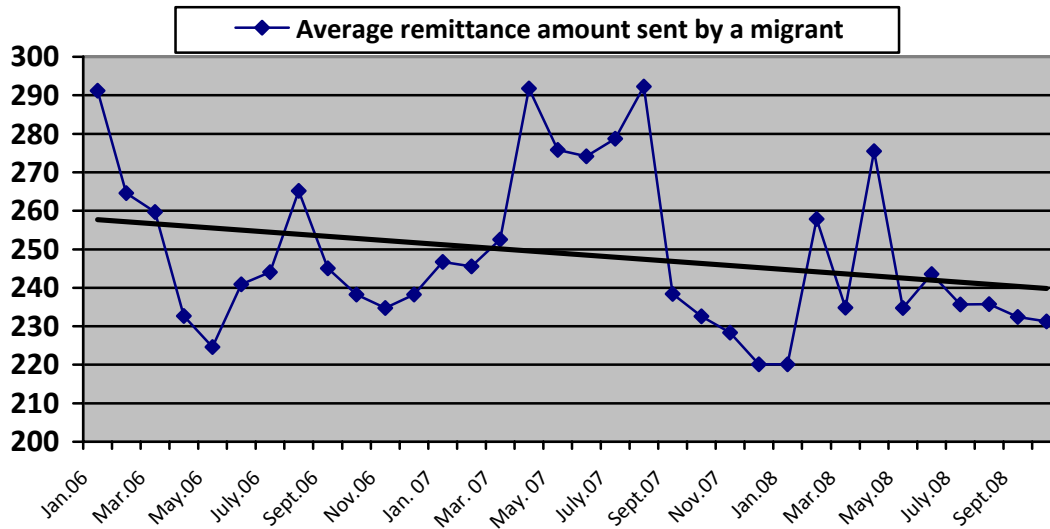
²¹ Orozco 2009 Cuba.

²² In essence, instead of sending US\$300 in 2007, remitters sent US\$285 per average transaction in 2008.

²³ A survey of Salvadoran immigrants carried out in December showed that 60 percent of the unemployed were remitting.

Between 2007 and 2008 migrant cash savings dropped from US\$4,000 to US\$3,000.²⁴ This decline would suggest that they were using savings as smoothing mechanisms during this period.²⁵

Figure 3: Average Remittance Amount Sent by Migrants in the United States (\$US)



Source: Enforcement Compliance Officer, 2008.

Another consideration to keep in mind is that the slower growth of remittances may also be attributed to lower migration occurring in the five years preceding 2008. Migration has been an important factor in determining future remittance flows, thus showing that remittance transfers continue to exhibit a relatively countercyclical behavior.

Table 9: Growth Rate of the Latin American Migrant Labor Force in the United States

Year	Growth (%)
2004	5.1
2005	3.4
2006	5.0
2007	3.5
2008	1.9

Source: R. Kochhar. Feb 2009

²⁴ Orozco, Manuel. September 2008 survey.

²⁵ We also found that in the U.S. from 2007 to 2008 the annual frequency of remitting increased from 12 to 14 times.

We find thus that migrants were relying on their savings to compensate for losses in personal earnings. This was done to enable them to maintain the consistent remittance levels necessary to cover their family economic needs back home. Nonetheless this process was not the same across all places of remittance origination. The Central Bank of Spain reported a 7 percent decline in the flows being sent from Spain.²⁶

b. Migration from Latin America and the Caribbean and economic trends in 2008

Future migration is an important consideration when exploring trends in remittance transfers. Reduced rates of migration from the region may be attributed to different causes, such as the impact of enforcement as demonstrated by the increased deportations and also by the decline in the multiplying effect of legal migration - a result of 20 years without migration reform in the United States. Moreover, demography, economic downturns and fears of deportation may induce people to return, and others to migrate from their countries of birth.

Despite increased anecdotal evidence of return migration, the overwhelming majority of migrants showed no inclination of a desire to return home, at least in the short-term in the 2008 survey of migrant remitters. Only 10 percent stated they planned to return to their home countries, of which 72 percent did not plan to leave the U.S. for at least 10 years or until they retire. Notably, not one respondent had plans to return in the year after the survey was conducted, despite the downturn in the U.S. economy.

While few migrant remitters sought to return to their home countries, a significant majority, over 60 percent, believed someone else they know will migrate in the next year, though responses varied widely by country. Respondents from El Salvador and Bolivia showed the highest likelihood of family migration (89 and 75 percent, respectively), while Guyana and Mexico had the lowest (17 and 23 percent, respectively).

Among the reasons for migrating from the country of origin, remitters point to the ability to improve life conditions by sending money home where wages are low. According to the 2008 survey, the most cited reasons for migration of a relative were: being able to send money home (61 percent), followed closely by low wages in the home country (60 percent) and the desire to improve the lives of the migrant proper or his/her family (56 percent). Notably, 10 percent of respondents said the political situation of the host country would be a cause behind such migration. The greatest share of respondents who pointed to their current political situation as a justification for migration was from El Salvador (20 percent) while the smallest shares were from the Dominican Republic (3 percent) and Bolivia (4 percent). Thus, economic considerations, while predominant, are not the only concerns among those considering migrating.

²⁶ El Pais, 2009.

Table 10: Reasons to Migrate from Country of Origin (%)

<i>Reason to Migrate</i>	<i>(%)</i>
Send money home	61
Low wages in home country	60
Improve life conditions	58
No work in home country	40
Family members' recommendations	32
High cost of living in host country	27
Political situation in home country	10

Source: Orozco Supplemental Survey of Latino Migrants, 2008

The belief among migrants that someone in their home country would migrate was also confirmed by household surveys conducted in five Latin American countries in 2008 and 2009: Honduras, Nicaragua, Dominican Republic, Cuba and Paraguay.

These surveys asked individuals whether or not they or someone they know was planning to migrate in the next twelve months. Results indicated that a relatively high percentage of people considered migrating. Almost 30 percent of people in the Dominican Republic believed in late 2008 that a member of their family or someone they knew would migrate in the next 12 months. The central reason for migration was economic: either the cost of living was too high or it was impossible to live there. Less than one percent of Dominicans provided the political situation as the central reason for migration.

A 2009 survey of remittance recipients in Cuba found that nearly 40 percent of respondents had thoughts of migrating for social, economic, and political reasons. The majority of Cubans were thinking of migrating to the United States, with Spain as the second most cited response, and less than a quarter of respondents were interested. The main reason Cubans cited for migrating was for family reunification, followed closely by dissatisfaction in current life circumstances based on the excessively high cost of living or the inability to live in Cuba. Nearly a quarter of respondents gave the political situation in Cuba as the main reason for potential migration, which represents a much higher share than other countries in the region.

The high cost of living is also the central reason Hondurans believed a family member would migrate, although only 15 percent of respondents thought a family member would migrate in the year following the survey in late 2008. In Nicaragua, just under a quarter of respondents have a family member who planned to migrate. Again, economic reasons are central to justifying migration, although Nicaraguans found the lack of jobs to be more personally taxing than the high costs of living. In Paraguay, 31 percent of respondents have family members who plan on migrating.

Table 11: Plans to Migrate in the Next Year and Reasons for Migration (%)

	<i>Honduras</i>	<i>Nicaragua</i>	<i>Dominican Republic</i>	<i>Cuba</i>	<i>Paraguay</i>
Plans to migrate	15	24	29	39	31
Family reunification	13	11	8	38	..
Too high cost of living/ One cannot live here	64	23	61	35	..
Other conditions	4	5	0	23	..
No jobs	17	57	15	4	..

Source: Orozco, 2008.

These figures suggest that people planning to migrate are likely to continue at similar levels as in previous years. Economic conditions are and continue to be the main reason justifying mobility. However, it is important to note that the intent to migrate is higher among those countries where legal migration is allowed in greater numbers. For example, people from Honduras or Nicaragua exhibit a lower intent to migrate than those in the Dominican Republic, Cuba or Paraguay.²⁷

3. Understanding the effects of a downturn on remittances in 2009

While remittances grew by one percent in 2008, the prospects for remittance flows in 2009 remain dim as the economic recession further continues to impact migrants. Unemployment among migrants in the United States is likely to reach 10 percent, with even higher levels in Spain. Moreover, people's savings will continue to deplete as earnings decline and their ability to replenish losses becomes all the more difficult. This section provides scenarios for a decline in remittances and explores the impact of this decline on households in Latin America and the Caribbean.

a. Basic scenarios for remittances in 2009

The bulk of the impact from the economic crisis in the industrialized countries will be felt in 2009, manifested in at least three ways: a decline in consumption, a lack of access to credit, and an increase in unemployment levels. While migrants face similar hardships to those of the rest of the population, specifically in the realm of increased unemployment, diminished consumption and reduced savings, their obligations to their families remain an important duty to them.

Using recent remittance data and survey results, our estimate projects a 7 percent decline in remittances in 2009 compared to 2008, considering factors such as increased unemployment, drops in earnings, and lower migration. Estimates from U.S. current population statistics show that migration grew by 1.9 percent between 2007 and 2008

²⁷ Most migration from Paraguay is moving from the United States to Argentina and Spain. Spain is preferred destination for many Paraguayan migrants due to the lack of visa restrictions to enter the country.

and prospects for continued migration during the crisis are unlikely. The recession may constitute both a motivating and de-motivating factor for migrating. Moreover, unemployment is likely to reach at least 10 percent in 2009 in the United States and over 14 percent in Europe, causing important implications for sending remittances. As earnings diminish, so do savings and income reserves, with little opportunity to compensate for the losses. In turn, this situation makes it difficult to continue to use savings to maintain stable remittances sending levels.

The estimate assumes that growth of foreign labor migration will be 1.5 percent or slightly less than in 2008. While people in Latin America expect to migrate (as previously discussed), such expectations may not be fulfilled until late 2009, when conditions in these home countries may worsen dramatically.²⁸ Reports from Spain, for example, show that migration has slowed since the recession hit.²⁹ Moreover, continued deportations in the U.S. may also contribute to a lower number of migrants.³⁰ The estimate also looks at the ratio of those unemployed who are still remitting (40 percent) as found in the survey data of 2008. The estimate incorporates survey results carried out in the United States and released in April 2009³¹ in which 25 percent of migrants say they are remitting 10 percent less (Table 12). This estimate also uses a frequency of remitting 12 times, rather than 14 times a year, as reported by migrants in the 2009 survey. The end result portrays a lower percentage of people remitting more and a higher number sending less in relation to 2008 trends. The decline in earnings, however, should also be compared to 2007 figures, which was a year of less financial strain for migrants.

Table 12: Remittance Sending Patterns in 2009 Compared to 2008 (%)

	2008	2009
Sending more	8.2	4.0
Sending less	7.9	30.0
Sending same	83.9	66.0
Difference	0.3	-26.0

Source: Orozco, 2008 supplemental survey, and 2009 survey.

²⁸ Projections of economic deterioration in Latin America are inconclusive but at worst project declining conditions in late 2009 or 2010. See for example, the IADB's report, *Policy Trade-offs for Unprecedented Times*. 2009. The Economic Commission for Latin America and the Caribbean forecasts 0.3 percent growth for the region in 2009.

²⁹ M. Fernandez Olmos, 2009.

³⁰ Deportations in 2009 are likely to decline as compared to 2008, when deportations reached 349,041.

³¹ The sample size of the 2009 survey is 600 people. See appendix for more details on the survey.

Variables considered in the estimate:

$$R = R_s \{ [(MIG * FL_{growth} * Remitters_{(%)}) - Unemployed_{(NR)}] * R_{(p 2009)} \} + \{ RSL \{ [(MIG * FL_{growth} * Remitters_{(%)}) - Unemployed_{(NR)}] * R_{(p 2009)} \} \}$$

- R_s = Senders of remittances who send same amount as in 2008
- $MIG * FLM_{growth}$ = Number of migrants in 2008 x Growth in foreign labor in 2009
- $Remitters_{(%)}$ = Percent of migrants who remit
- $Unemployment_{(NR)}$ = Unemployed migrants not remitting in 2009
- $Remittance_{(2009)}$ = Principal amount sent in 2009
- RSL = Senders who will send less than in 2008 (%)

The table below shows the estimated decline.

Table 13: Estimates of Remittances to Latin America and the Caribbean in 2009

Country/region	USA	Europe	Rest of the world	World
Working Age Migrants	19,400,000	3,800,000	6,500,000	29,700,000
Remitters	12,610,000	2,660,000	4,550,000	19,820,000
Amount remitted (US\$)	3,780	3,960	2,400	
Remittances in 2008 (US\$)	47,665,800,000	10,533,600,000	10,920,000,000	69,119,400,000
Unemployed in 2009 (%)	10%	16%	8%	
Remitters in 2,009	12,042,550	2,457,840	4,459,000	18,961,399
Decline in Senders	(567,450)	(202,160)	(91,000)	(860,610)
Estimated Remittances 2009 (US\$)	44,382,818,025	9,489,720,240	10,434,060,000	64,306,598,265
Growth (%)	(0.07)	(0.10)	(0.04)	(0.07)

Source: author's estimates.

Implications by number of households affected

The estimated amount for remittance flows for 2009 is US\$64 billion down from US\$69 billion in 2008. This decline is reflected in two ways: the number of households not receiving remittances and those receiving less than in 2008. In terms of the former, 860,000 migrants will no longer be sending remittances. According to surveys, migrants generally send money to 1.5 people so this situation would result in a loss of US\$3.3 billion. Table 14 identifies those countries and the number of households that will not receive remittances in 2009.

In the latter case, we integrate the results of the April 2009 survey on migrants in the U.S. These results indicate that 25 percent of migrants were sending 10 percent less money than in 2008. This decrease in remittance sending affects 4.7 million people, who would in total receive US\$1.7 billion less.

Although the impact of the crisis is felt predominantly among those who will not receive money this year, the effect is also severe among those receiving a smaller share of remittances. Thus, the effect of the crisis on remittance sending patterns is manifested among nearly all remittance recipients.

Consumption smoothing in times of crisis may be diminishing as migrants' savings continue to drop.³² Remittance recipients who depend significantly on these savings will thus see a loss of about 65 percent of all their earnings (for those not receiving money at all) to 7 percent (for those receiving 10 percent less). In absolute terms, Mexico and Colombia have the largest number of households affected. The large declines in remittance levels and the breadth of families affected will have important effects on economic output. Specifically, the large declines will impact countries with high levels of dependency on the global economy such as Haiti or Honduras, where the drop may represent as much as 1 percent of their country's GDP in 2008.

Table 14: Estimates of households not receiving remittances in 2009

<i>Country</i>	<i>Households</i>	<i>(US\$)</i>	<i>(% of GDP in 2008)</i>
Mexico	448,913	1,616,085,664	0.2
Colombia	91,370	311,706,626	0.2
Dominican Republic	73,650	183,829,975	0.4
Guatemala	56,925	204,930,503	0.6
Brazil	56,508	406,854,344	0.1
El Salvador	50,940	183,382,757	0.9
Ecuador	49,439	196,963,731	0.4
Cuba	49,307	88,753,265	0.2
Haiti	49,209	70,140,370	1.1
Jamaica	41,929	51,823,747	0.5
Honduras	39,212	111,988,397	0.9
Peru	35,888	68,590,503	0.1
Argentina	34,577	82,985,768	0.0
Nicaragua	32,723	45,389,682	0.8
Other	202,594	562,232,816	

Source: author's estimates.

³² Preliminary survey data shows that migrant stock of personal savings is now US\$2,500.

b. Significance of the impact across countries

The impact of a decline in remittances on economies of Latin America and Caribbean countries can take various forms, including macroeconomic balance and growth, poverty reduction, asset building, the multiplying effect, and public revenue. Previous research has shown that higher levels of remittances increase economic growth,³³ asset building,³⁴ and poverty reduction.³⁵ The impact is greater among countries which are more dependent on remittances in per capita or income terms.

Six prime examples can be found in the cases of Dominican Republic, Guyana, Haiti, Honduras, Nicaragua and Paraguay. Each of these countries depends significantly on their migrants, with 60 percent of people having a relative abroad and about half of these households receiving remittances. In turn, the aggregate flow of these transfers amount to at least 15 percent of GDP.

In these countries, a decline in earnings for 50,000 households is significant, as remittances amount to 65 percent of all income earned in these households, an average of at least US\$3,000 a year. Moreover, the loss of income will also have an effect on savings. Recipients have saved at least US\$1,000 and as their income from remittances drop, they will rely on their savings. While five percent of all recipient households will be affected by the loss of income, the effect on economic growth and consumption will be considerable due to the contribution that these earnings have on domestic expenditure and local consumption. Thus, reductions in the number of households receiving remittances represent major losses in countries that are also significantly dependent and vulnerable to external shocks. In 2009 these economies have already seen declines in exports above 10 percent (see Table 17).

Table 15: Households Affected as Percent of All Remittance Recipient Households

	<i>Households</i>	<i>Recipients</i>	<i>Affected</i>	<i>%</i>
Nicaragua	1,158,545	650,000	32,723	5
Honduras	2,563,591	833,167	39,212	5
Dom. Rep.	2,477,294	941,372	73,650	8
Guatemala	3,800,000	1,100,000	56,925	5
Paraguay	1,432,276	458,328	30,000	7
Haiti	2,408,716	891,257	49,208	6

Source: author's estimates.

³³ Orozco 2008

³⁴ Loser 2006; Orozco 2007

³⁵ Adams 2005

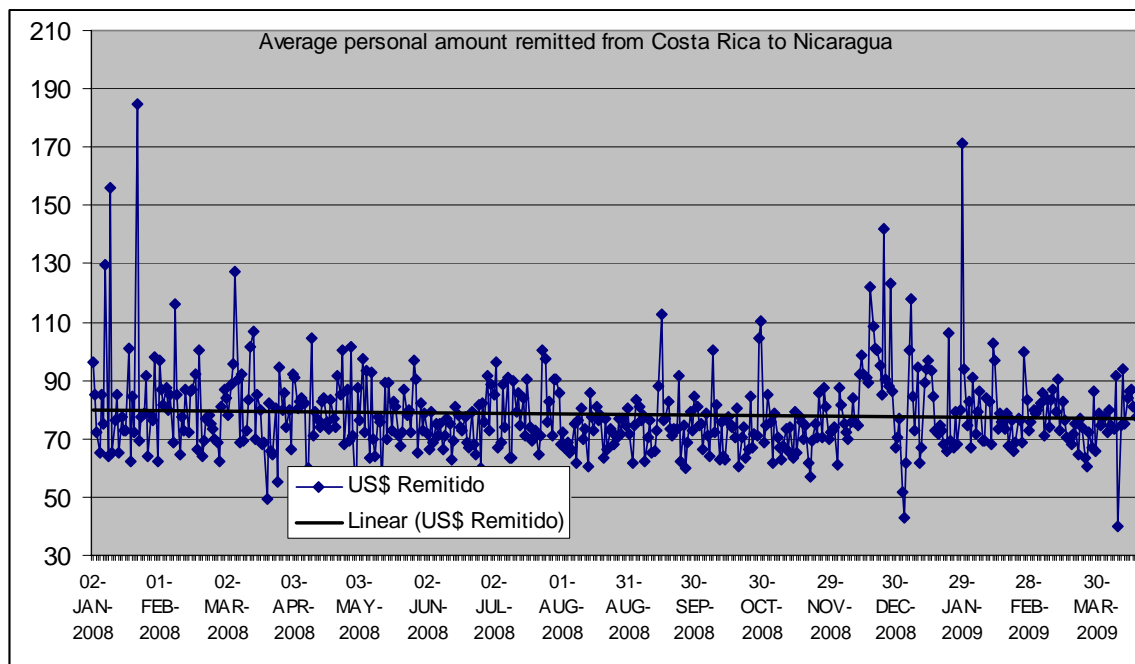
Table 16: Remittance Recipients and Financial Access

	<i>Dominican Republic</i>	<i>Guatemala</i>	<i>Honduras</i>	<i>Nicaragua</i>
People who save (%)	49	20	44	34
People with bank accounts (%)	45	30	40	24
People who save at banks (%)	27	8	16	26
Average amount saved (US\$)	1440	1460	1661	1200
Estimated amount saved (US\$ million)	670	300	664	265

Source: Household surveys conducted by the author, 2008.

The impact of this decline will particularly be felt for households who rely on transfers from the U.S. and Spain, and particularly for households in rural areas. Many Ecuadorians and Paraguayans in Spain, for example, do not remit to the capital cities, but to rural areas of Cuenca, or southern Paraguay. These declines may be less pronounced intra-regionally. For example, remittances from Costa Rica to Nicaragua, or from Argentina to Paraguay have remained steady. Interviews with Migrants and data collected from companies show that the principal amount sent from Costa Rica for example has not changed, nor have migrants stopped remitting.

Figure 4: Average Transaction Amount Remitted from Costa Rica to Nicaragua



Source: FOLADE, Remesas Instantaneas, 2009.

Table 17: Effect of the Economic Crisis on Exports and Remittances: Select Latin American Countries

<i>Country</i>	<i>Exports</i>	<i>(%GDP)</i>	<i>Remittances</i>	<i>(%GDP)</i>	<i>Exports to US</i>	<i>(%GDP)</i>	<i>Remittances from US</i>	<i>(%GDP)</i>	<i>Expected loss from remittances</i>	<i>US Share (%)</i>	<i>Expected loss from exports</i>	<i>US Share (%)</i>
Haiti	1,050	17	1,870	30	945	15	1,112	18	70	60	(gain) 74	90
Honduras	6,147	49	2,707	22	4,846	39	2,459	20	112	91	2,327	79
El Salvador	5,108	25	3,788	19	2,463	12	3,382	16	183	90	911	48
Nicaragua	1,812	31	1,056	18	1,093	19	700	12	45	66	420	60
Jamaica	6,006	53	2,034	18	2,644	23	1,013	9	52	50	1,904	44
Guatemala	6,831	20	4,315	13	4,721	14	3,896	12	205	90	818	69
Dominican Republic	10,017	24	3,148	8	6,599	16	2,371	6	184	75	1,987	66
Ecuador	9,151	19	2,822	6	3,450	7	1,171	3	197	42	(gain) 918	38
Mexico	268,486	26	25,415	2	151,539	15	24,050	2	1,616	96	56,606	56
Colombia	25,937	12	4,842	2	11,439	6	3,064	1	311	63	5,035	44

All figures in millions of U.S. dollars, unless otherwise noted.

4. Strategies to mitigate the negative effects of the crisis: promoting the silver lining through financial asset building

Income losses resulting from increased unemployment, wage decreased, and other economic factors require different sets of policy responses. Among remittance senders and recipients, a greater focus on financial assets is important. Although immigrant savings have dropped to compensate for changes in their earnings, investing back home is an important option that can yield greater returns in the short term. Moreover, remittance recipients have also saved and will rely on their savings to compensate for income losses. Thus, enhancing financial assistance and access is more pressing under these circumstances than ever before.

a. Attracting savings

Remittance recipients have saved significant amounts of money over time. On average, they have demonstrated that they save 10 percent of their remittances, which translates into more than US\$1,000 in a year. However, the value of their savings is still limited by the informal condition in which they save, partly due to a lack of financial access. At a time of economic and financial distress, greater financial management and assistance is needed in the form of financial literacy and counseling. The provision of options for recipients to better capitalize on their savings through financial instruments that yield greater benefits, compared to the typical 'under the mattress' saving methods, is also greatly needed. These are practical and normative realities that fall in the realm of private and public sector interests. Attracting savings from remittance recipients during times of liquidity constraints is the silver lining of the financial crisis, especially in countries where recipient savings amount to hundreds of millions of dollars. Such a strategy can contribute to the mitigation of economic uncertainty and the promotion of development.

One of the lessons learned about leveraging remittances to promote development is the important role of providing technical assistance to financial institutions to design and market new or existing financial products to remittance clients. The experiences of the Inter-American Development Bank and of the International Fund for Agricultural Development grant facility on remittances show that supporting financial institutions to work on financial product design, marketing tools and IT modernization proves to be an efficient way to leverage remittances for development.

Potential initiatives to help leverage remittances for development include learning best practices and approaches of other institutions and doing client fieldwork to learn what about their financial preferences and needs. Several products have been developed and successfully introduced into the 'remittance client' market. Among those products strictly tailored to remittance recipients are savings products, home improvement loans, and insurance products, such as remittance insurance. Other examples that are

increasingly emerging but need refining are remittance-backed financial products. Many institutions are considering the receiving of remittances as part of a demonstrated history of earnings, which is used to assess and approve credits. However, most institutions lack the proper design of an assessment method to estimate risk or opportunity costs. Designing a remittance-backed tool for credit or cash advances could bring benefits to recipients and institutions.

Financial literacy has yielded important results for improving financial access; however, few efforts have focused on educating remittance senders or recipients in order to expand their knowledge about financial instruments. International cooperation has the potential to enhance the means to achieve financial access through financial literacy. A recent pilot program on financial literacy performed during a six-month period in Moldova with 7,000 remittance recipient clients showed that 80 percent of those receiving financial education expressed an interest in acquiring and utilizing financial services. Moreover, the results of an intake evaluation form showed a strong positive correlation between owning a savings account and having prior knowledge of financial issues.³⁶

The lessons learned from other experiences have also shown that implementing financial literacy as a tool to give people access to financial institutions has important payoffs, including raising the deposits of the institution, increasing credits to the community, and significantly raising revenue for the businesses performing the work. Thus, we propose a method on financial literacy intended to help remittance recipients enter the financial system that educates and markets financial products simultaneously, relying on educators at locations where money is withdrawn.

b. Motivating investment

Previous research has shown that migrants have a demonstrated concerted interest in investing back home. While the interest in investing may be as high as 20 percent, one quarter of those interested actually invest in their home country with a financial commitment of US\$10,000. That commitment is significant in small countries but mostly occurs informally. The intentionality of investing, therefore, needs to be both increased and improved through formal mechanisms that increase confidence and motivation among migrants to put their money in their home countries. The current economic landscape provides greater opportunity to invest back home because the financial systems are relatively more stable and offer greater yields in some investment instruments. Investing in affordable housing in the home country is a critical opportunity to increase flows into the homeland, while solving prevailing housing deficits.

c. Take migration and remittances more seriously

One lesson to acknowledge out of this period of financial crisis is the fact that early warnings in the form of policy incentives to the reality of migration need to be taken

³⁶ Orozco 2008 ILO.

seriously.³⁷ Many policy makers and politicians underestimated the flow of remittances and their leveraging power, instead criticizing the reality of international labor mobility and the economic activities of migrants.³⁸ Had a more serious approach been taken with regards to these issues, some of the effects of the slowdown of these economic activities could have been mitigated. The fact remains that migrants are not only reducing their inflows in remitting but also in other activities such as donating and consuming. The need to focus policy incentives on these economic links is tremendously pressing now and requires government commitment to focus on the reality and need of financial access.

³⁷ Orozco 2006.

³⁸ Statements were made privately and publicly about several topics: increasing the productive use of remittances, the 'consumerist danger' of remittance flows, or to the 'dutch disease' effect of the flows. Paradoxically, many of those who criticized the adverse effects of these flows, now claim concern about their decline and point to the significance of relying on the flows at this point in time.

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Appendix: Surveys utilized

This study relied on a range of surveys conducted to migrants and in selected Latin American countries. The surveys to migrants (see table below) asked migrants about their remitting behavior, financial obligations, migration patterns, and basic demographic characteristics. The 2007 survey also focused on migrants' socio-economic profile of this population including attention to their health condition. The 2008 and 2009 surveys on migrants also focused on how they are coping with the economic crisis. The Latin American surveys were conducted nationwide and looked at migration, remittances and financial access issues.

Survey	Sample size	Cities	Countries of Origin
Survey of Migrants 2007	1,250	New York, Los Angeles, Chicago, Washington DC, and Florida	Bolivia, Colombia, Dominican Republic, El Salvador, Guatemala, Jamaica, Mexico, and Nicaragua
Supplemental survey 2008	800	New York and Washington DC	Bolivia, Colombia, Dominican Republic, El Salvador, Guyana, and Mexico
Survey of migrants during the crisis 2009	600	New York, DC and Los Angeles	Bolivia, Ecuador, El Salvador, Dominican Republic, Guatemala, and Mexico
Household Survey of Hondurans 2008	1000	Nationwide	
Household Survey of Nicaraguans 2008	1000	Nationwide	
Household Survey of Dominicans	1000	Nationwide	
Survey on Cubans 2009 (in the US)	300	Miami, New York City, New Jersey	
Survey on Cubans (in Cuba)	200	Havana	

IAD. Survey of migrants 2007 (<http://www.thedialogue.org/page.cfm?pageID=32&pubID=1390>).

IAD. Supplemental survey 2008.

IAD. Survey of migrants during the crisis 2009.

IAD. Household survey of Hondurans August 2008,
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