Abstract

This essay critically engages the World Bank's recent experiments in providing market-based price risk management for coffee farmers. Using the case of Mexico and the recent 1998–2002 coffee crisis, I argue that such advocacy of farm-level use of derivatives markets entails large direct and indirect costs for coffee farmer wellbeing. This is especially so for smallholders. Not only might hedging with derivatives further destabilise and reduce producer incomes, but the opportunity cost of the Bank's advocacy, in terms of foregone risk management alternatives, is also problematic. I conclude with a discussion of several risk management alternatives that may better support small coffee producers facing volatile commodity prices.

Keywords: coffee, agriculture, World Bank, development, derivatives, risk management

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