There is plenty of support for the principle of simplifying IMF conditionality. Putting it into practice is another matter.

LIKE any new boss, Horst Köhler, who is coming to the end of his first year as managing director of the International Monetary Fund, wants to make his mark. From the outset, Mr Köhler wanted to bring more focus to what the IMF does, and to set clear priorities. His approach can be summed up as less means more: smaller rescue packages for countries needing IMF help, and fewer, but more effectively applied, conditions for those packages. He wanted the Fund to be better both at crisis management and at crisis prevention.

So far, it has not gone as smoothly as Mr Köhler had hoped. The reforms he brought in to make the Fund better at spotting trouble ahead are only now being implemented. It is too soon to know how effective they will be (the sceptics are, well, sceptical). On crisis management, too, the jury is out: Turkey, for instance, has been in almost continuous negotiation with the Fund since last autumn, and Mr Köhler has admitted that, if the Turkish government fails to deliver on its promises to the IMF for a third time, his reputation could be damaged. Nor are IMF packages noticeably smaller. The bailouts agreed for Turkey and, more recently, Argentina seemed pretty big to most people.

On conditionality, though, Mr Köhler seems to be making some headway. At last weekend’s spring meetings of the World Bank and the IMF, he secured backing for his proposed changes in the way conditionality is applied. Countries getting financial support from the Fund cannot be expected to do everything at once, says Mr Köhler. It is necessary to decide on priorities, and to focus conditionality on measures that are critical to the macroeconomic objectives of recipient-country programmes, leaving those countries some scope to make policy choices for themselves. One benefit of this more streamlined approach, in Mr Köhler’s view, is that it gives debtor countries the chance to build political support at home for their reform programmes—a vital element whose absence has, on occasion, caused IMF-sponsored programmes to collapse in the face of local opposition.

This new approach was endorsed by the main policymaking body of the IMF, the International Monetary and Financial Committee, when it met on April 29th. Its communiqué noted that streamlining conditionality shifts “the presumption of coverage from one of comprehensiveness to one of parsimony.” This echoes what some Fund-watchers have been urging for some time. Morris Goldstein of the Institute for International Economics (IIE), a Washington think-tank, has long argued that the approach of IMF staff to conditionality has got out of hand. Mr Goldstein is not suggesting that IMF funds should be disbursed without strings. But he has questioned the sharp rise in the number of conditions attached to programmes (140 at its peak in the case of Indonesia, for example). Efforts to include in conditionality everything but the kitchen sink, says Mr Goldstein, have brought legitimate charges of "mission creep".

One of the consequences of this is that monitoring compliance becomes more difficult. For instance, is a country compliant or non-compliant when it observes 30 out of 50 conditions? It is hard to tell, says Mr Goldstein, in an
updated paper recently published by the IIE*.

Mr Goldstein is no enemy of the IMF, rather a constructive critic. He was, indeed, an IMF staff member for nearly 25 years, and deputy director of the research department for seven. Yet the prickly reaction that his views on conditionality have drawn from some Fund staffers shows that Mr Köhler needs support from below, as well as above, if the new policy is to be effective. At a recent seminar in Washington, for instance, one IMF official asked whether it was wrong to include measures aimed at poverty reduction.

Of course it is not. Even so, such efforts may be misguided. They may also be over-ambitious, given the finite resources and expertise within the Fund for monitoring compliance. After all, most IMF funding is not directly aimed at poverty reduction per se, but at helping countries to achieve the macroeconomic and financial stability that are the foundations of prosperity. Better, surely, to limit the number of conditions that countries seeking assistance should be asked to meet, and then to ensure that they do indeed meet them.

If eliminating mission “creep” is going to be a struggle, so too is cutting back on mission “push”—the desire of the IMF’s biggest shareholders to get the Fund to take on extra responsibilities, sometimes even as they are voicing support for streamlining conditionality. The IMF, for instance, is now expected to play a leading role in combating money-laundering and financial abuse. This weekend’s communiqué also endorsed the idea that the Fund should deal with corruption and poor governance. These are important aspects of sustainable economic reform. But they could imply an extension, not a reduction, of Fund involvement in domestic policymaking.

The fact is that it often suits the rich countries that largely dictate IMF policies to tack on specific conditions to individual country packages. They may talk about giving more focus to the Fund’s activities, but in practice they find them useful policy tools, especially if they want to avoid the expense and bother of bilateral help. This is true, above all, for America—much the biggest shareholder in the Fund with, in effect, right of veto. The new Bush administration came into office amid expectations that they would be tougher on countries in trouble, and that they would oppose big bailouts. So far, though, their approach has been wholly pragmatic: after much huffing and puffing, the packages for Turkey and Argentina won strong American backing.

For the time being, at least, this has put the IMF in a stronger position than it might have hoped. Whether Mr Köhler can exploit this to make what the Fund does more effective will be a good test of his mettle.