**Response to the Guest Editor**

1. *Response to the comment on what this paper adds over Serôa da Motta et al. (1999)*

The attached revised version of the manuscript follows your suggestion to “be more explicit about what his paper adds over Seroa da Motta et al. (1999) in EDE, which is also a sort of survey paper on the use of market-based instruments in Latin American”. This is done in the introduction and in Section 3 (“Lessons”).

First, because of the moment in time when it was written, Seroa da Motta et al. (1999) basically do not cover the programs that I analyzed in my paper. This is an important addition of my paper over Serôa da Motta et al. because these are the only three programs based on direct economic instruments implemented thus far in Latin America to control pollution. Instead, these authors covered a broad set of economic instruments: not only direct but also indirect economic instruments, and not only those implemented to control pollution, but also those pricing the extraction or use of natural resources.

Second, based on these broad set of economic instruments, Serôa da Motta and co-authors drew some policy lessons. To my knowledge, there is no work in the literature today that analyzes whether these lessons drawn by Serôa da Motta et al. (and others) were taken into account or not, whether they were useful or not to overcome the initially identified problems and whether there are new lessons to draw from the experience with direct economic instruments. The objective of this paper is to contribute to filling this gap.

In short, the result of this exercise is the following. Serôa da Motta et al. effectively identified and warned about institutional capacity and political economy issues that were preventing a successful implementation of economic instruments during the 1990’s. Based on these observations, these authors recommended the implementation of economic instruments to be modest (or compatible with institutions), gradual (starting from pilot projects or experimental programs before going regional or national) and flexible (allowing low cost revisions of the legislation). They also recommended the implementation of economic instruments to assure the participation of stakeholders, and to generate revenue through cost-recovery approaches over correct pricing approaches, as a way to build political consensus and guarantee financing. Nevertheless, my analysis of the programs with direct economic instrument allows me to draw new important practical lessons, apart from confirming old ones. Among these new lessons, maybe the more significant is that the changes introduced to make the instruments compatible with the available institutions and politically acceptable may affect the instruments capacity to achieve the desired cost – effective allocation of abatement responsibilities.

1. *Editing*

The paper has been revised by an English professor.