

## **LEGAL INCENTIVES, OPPORTUNITIES, AND BARRIERS**

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### **Summary**

Institutional approach to the analysis of Industrial Ecology development issues allows us to distinguish the following groups of formal institutions which have both stimulating and hampering impact on the development of environmental undertakings: international conventions, treaties and other types of multi- and bi-lateral agreements; constitutions, laws and other legal regulations by specific countries; legislative and regulatory grounds for local governmental bodies.

Specifics of institutional mechanisms in industrially developed countries, in developing countries and in Russia are recorded.

### **1. Environmental Factors of the Institutional Approach**

Development of civilization under the sustainable development model proposes changes in the character and type of economic relations where environmental requirements become a determining factor. At the same time environmental incentives and barriers can be both an accelerator and a brake on economic changes; they can significantly influence objectives, implementation methods and performance. Establishment of sustainability of the society-nature system is associated with modification of various conventional views, with radical changes in many social spheres, and with formation of environmental conscience of the noospherical type. The phenomenon of Industrial Ecology is one point in the required transformation and growth.

Ecological business is a unique instrument on the planet, able to produce changes required to prevent global deterioration of society and the environment. In general, environmental policy involves strengthening of economic incentives, and pollution prevention, as opposed to cutting back on production. Every industry consumes energy

and generates wastes. Environmentally sound production suggests addressing two issues: reduction and minimization of waste from all consumed resources.

Institutional systems in any economy give birth to both positive and negative incentives for production development. Institutions not only determine profitable and viable activities, but also form an adequate structure of firms and other organizations. Nowadays, technological and institutional modifications become major determiners of socio-economic development. Along with applied technologies, institutions identify the level of transformational and transactional costs, and hence identify attractiveness, efficiency and profitability of this or that economic activity. The need to find a new approach to management assessment arises. Solutions based only on a financial performance without taking into account environmental impact can appear ineffective.

Formal institutions in the form of legal incentives and barriers comprise a wide spectrum of rules—from constitutions, laws down to sub-law regulations stipulating standards and limits, are effective mechanisms of regulation. Laws and regulations, court decisions, and many other forms of barriers serve to influence industry or organization policy, and to regulate environmental activities.

Institutional mechanisms include both bans to perform certain actions and instructions stipulating when this or that action is permitted. Institutions comprise all forms of barriers invented by people to add certainty to the structure of human relations. Formal rules can be changed through political or legal decision-making while informal barriers embodied in traditions, morals, and orientations are less susceptible to human manipulation. Normally, modifications are comprised of adjustments, as far as possible, to a combination of procedures, standards, and traditions that constitute the institutional system. Serious institutional changes proceed slowly, creating possibilities for both improvement and decline of economic activity. The higher the institutional uncertainty, the higher the performance costs.

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