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“Reconcile land system changes  
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## Governance and development of Paraguay’s carbon market: An institutional and cultural analysis

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### Abstract

Carbon markets are increasingly recognised as key instruments for climate change mitigation. However, their development and effectiveness are not solely determined by technical or economic parameters; they are deeply shaped by institutional frameworks and cultural contexts. Drawing on Douglas North’s theory of institutions (1990) and Janelle Knox-Hayes’ concept of market cultures (2016), this study analyses the governance and evolution of the carbon market in Paraguay—an emerging economy with considerable potential for carbon sequestration through its forests, savannahs, and wetlands.

Despite recent advances, such as the enactment of the Carbon Credit Law N° 7190/2023, challenges remain in aligning regulatory design with implementation capacity, fostering trust among stakeholders, and ensuring the meaningful participation of local and Indigenous communities. Employing a qualitative constructivist methodology (Creswell, 2014), the study combines document analysis, semi-structured interviews, and focus groups to examine how formal rules and informal norms shape actors’ perceptions and engagement in the carbon market.

Preliminary findings suggest that institutional weaknesses—such as limited enforcement mechanisms and fragmented coordination—alongside cultural skepticism toward market-based environmental solutions, constrain both the functionality and legitimacy of the carbon market in Paraguay.

This research contributes to the broader discourse on climate governance and carbon market design in developing countries, where institutional weaknesses and cultural dimensions remain underexplored. It emphasises that robust legal and technical frameworks alone are insufficient; meaningful progress also requires building social legitimacy and fostering trust among stakeholders. Based on this analysis, the study offers context-specific policy recommendations to enhance institutional capacity and promote a culturally responsive market environment in Paraguay, with lessons that may be applicable to other Latin American contexts.

**Keywords:** Carbon markets, governance, indigenous inclusion, institutional theory, market culture, Paraguay