

Divestment Movements over Environmental Issues: The Brazilian Amazon Case

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ABSTRACT

Devastating forest fires in Brazil's Amazon rainforest, one of the most important biomes for Earth's climate balance, have captured the world's attention in 2019 and 2020. Foreign governments, non-governmental organizations and institutional investors pressured Brazilian President Jair Bolsonaro to act and control the situation. Within this context, institutional investors threatened to divest from companies potentially linked to the wildfires and to sell government bonds, creating a divestment movement. Against this background, this article shows that Bolsonaro's responses varied for each of the groups criticizing the handling of the environmental situation. It is argued that the Brazilian government adopted a more conciliatory tone and took more concrete actions when responding to institutional investors' demands, compared to the responses for foreign governments and non-governmental organizations (NGOs). Based on fifteen in-depth interviews conducted in 2021 with professionals involved in this divestment case, the paper concludes that institutional investors played a key role in Bolsonaro's winning coalition and electoral aspirations. Moreover, the shortage of financial capital due to the COVID-19 pandemic created further incentives for Bolsonaro to avoid conflicts with institutional investors.

KEYWORDS

Divestment; Amazon Rainforest; Wildfires; Investors; Climate Change; Brazil; Politics

INTRODUCTION

In 2019 and 2020, the Amazon wildfires took the headlines as the number of destroyed wildlife areas kept breaking records in Brazil. Brazilian President Jair Bolsonaro's administration was accused of being responsible for these events after adopting a series of deregulations on environmental protection, such as rolling back illegal deforestation laws, scaling down the operational ability of the main Brazilian environmental supervisory agency, the Brazilian Institute of the Environment and Natural Resources (IBAMA), and even firing the head of the Brazilian space monitoring organization, the National Institute for Spatial Researches (INPE), who denounced the overwhelming growth of Amazon rainforest loss.¹⁻⁶ These actions not only prompted domestic responses, but also generated reactions from foreign countries, international civil society, and the private sector. However, even though all these actors pressured for better environmental protection, the Brazilian government reacted differently to each one of them, being more responsive to the private sector than others.

Studying the influence that the private sector can exert on governments in comparison to other states and civil society can provide insights about power, decision-making processes, and transnational private governance. The strategy adopted by the financial sector in the Brazilian case was to threaten to divest from activities related to the Amazon destruction and sell bonds from the Brazilian government and state-owned companies. From a broader perspective, divestment occurs when investment funds, pension funds, governments, and any other organizations dealing with investments decide to sell their assets, such as stocks and bonds, from specific companies, sectors, and even countries.⁷⁻⁹ This decision can be either motivated by financial reasons, such as increased governmental regulation on a specific sector undermining a company's performance, or/ and social and ethical reasons, such as investors reallocating their investments out of companies known for employing forced child labor.⁸

This article contributes to the divestment literature. While companies have experienced divestments after violating human rights, harming the environment, and having negative public perception,¹⁰⁻¹⁶ institutional investors have never blamed nor threatened to divest from governments over environmental issues. The Carmichael mine project, in Australia, did suffer with divestment movements against it, and the Australian government intervened to subsidize it. However, the government did not become a target of the movement.¹¹ Other governments were indeed the main focus of divestment efforts, such as in Myanmar, Sudan, and the

Apartheid regime in South Africa. However, these cases were motivated by human rights abuses, not environmental issues.^{9, 17-19} The Brazilian case, on the other hand, presents a different scenario in which a federal government is the main target of a divestment movement due to environmental motives. In this context, Bolsonaro has adopted a more conciliatory reaction to the private financial sector relative to other players, both in terms of actions to address the demands and of discursive tone. Therefore, it is important to do an in-depth study of the Brazilian case to further develop knowledge of how divestment movements unfold and to better understand the private sector's ability to influence governments in a globalized world facing more and more environmental challenges.

Given these events, this article will answer the following question: why did the Brazilian government vary its reaction to external pressures from foreign governments, civil society, and institutional investors regarding the Amazon wildfires? This article's hypothesis is that governments are more responsive to institutional investors' pressure than foreign governments' and NGOs' pressure when investors play a major role in the incumbent winning coalition and when financial capital is scarce. Drawing from interviews with key players involved with the Brazilian divestment case, the article will first show that Bolsonaro's government indeed crafted different responses to different actors pressuring Brazil due to the Amazon wildfires, and then argue that the Brazilian government was more responsive to the pressure from institutional investors because they played a key role in Bolsonaro's winning coalition stability and his electoral concerns, and because Brazilian financial capital was scarce due to the COVID-19 pandemic. Therefore, the private sector was able to have their critiques more recognized due to three main reasons: electoral concerns, economic need, and winning coalition bonds.

LITERATURE REVIEW

Three branches of the literature explore the functioning, achievements, and implications of divestment movements: the study area of the demand side of divestment, carried out by actors such as activists; the area focused on the supply side of divestment, embodied by institutional and non-institutional investors; and the branch concentrated on the consequences and reactions of divestment-targeted firms and governments.

One strand of scholarship identifies NGOs; coalitions of civil rights, student, environmental, and labor activists; religious organizations; and consumers as the protagonists of the demand side of divestment.^{10, 17, 18} They operate as norm entrepreneurs to pressure institutional investors to divest, which threatens their target's social license to operate by stigmatizing and delegitimizing them and also questioning their financial performance.^{9, 10, 11, 18-21} Another group of scholars investigates which factors can lead the supply side of divestment, mainly constituted by institutional investors, such as public and private banks, insurance firms, universities, public-sector pension funds, and asset management firms to divest. These actors assess political, institutional, economic, environmental, and any other relevant uncertainties in order to manage financial risks and guarantee the financial performance of their clients' invested capital.^{22, 23} Once they get targeted by divestment movements, they are pressured to apply exclusionary screening to their investment decisions, which is the practice of using a "set of filters to determine which companies, sectors or activities are eligible or ineligible to be included in a specific portfolio" based on different criteria.²⁴ In this context, they may consider various aspects to perform this exclusionary screening: reputational and legitimacy risks for their businesses, the financial performance of an investment (if an activity is profitable, investors will hardly divest from it, but if it has high financial instability and volatility, a value-maximizing strategy would be to divest), their fiduciary duties, the structural characteristics of their investments, such as long-time temporality investments, their willingness to use their shareholders "voice" by engaging with companies, the possession of calculative models capable of adequately price new kinds of financial risks, such as climate change risks, as well as the heterogeneity of organizational design.^{13, 15, 16, 20, 22, 25-27} A final group of scholars examines how firms and industries targeted by divestment movements to be stigmatized are affected and how they react. These affected companies and industries perceive this matter as a legitimacy contest for survival. Thus, maintaining their social license to operate through strategies, such as delegitimizing divestment movements, means fortifying their standing with regulators and keeping with the ability to raise capital for expansion and usual business, besides not losing clients.^{9, 12, 15, 17, 21, 28, 29}

More generally, there is a consensus in the academic literature that divestment movements are not very efficient in generating relevant financial impact for targeted companies and industries, especially in the short term.²² Sectors with high demand will continue to be profitable regardless of whether some investors sell their shares or assets, and these stocks will continue with the same prices as long as there are other investors willing to buy what divestors have sold, or governments willing to reduce divestment impacts.^{14, 21} Nevertheless, these limitations are acknowledged by divestment activists, who argue that their main short- and medium-term goals are raising awareness, producing knowledge, shifting attention, and stigmatizing certain industries, governments, and activities. In the long-term, these outcomes may eventually increase market uncertainty by making shareholders doubtful about ventures' future profitability, strengthening the chances of cessation of engagement by customers, contractors, and suppliers, and promoting more governmental restrictive regulatory measures that, in the aggregate, would impose enormous costs on the targeted activities and sectors if they continue with "business as usual."^{8, 10, 11, 18, 20, 21, 23} Besides the aforementioned conditions, divestment movements are the most successful in altering their targets' activities when they manage to combine

normative with financial factors. The former can cause the second, for example, when the movement convinces consumers that buying products from a specific company is not socially acceptable: the demand diminishes and so does the targeted business's overall operation. Consequently, its financial performance becomes uncertain, and investors decide to divest.

This article contributes to a gap in the literature on how governments react to divestment movements. It builds on studies of how the Sudanese, South African, and Australian governments reacted to such movements. For example, the Sudanese government defended itself against U.S. student divestment movements against human rights violations in 2005 by publishing a defense letter in the *New York Times*.⁹ Moreover, U.S. opponents of divestment movements to overthrow the racist Apartheid regime in South Africa countered that continued corporate presence in the country served to improve the conditions of black workers through social responsibility accounting.^{17, 19, 27} While these studies contribute to understanding government (re)action in the context of divestment dynamics, they do not analyze in depth the role of national governments in defending themselves in such events, nor do they propose theoretical frameworks to examine their views and motivations on the subject. The Australian divestment case regarding the Carmichael Mine and its governmental influence has received more scholarly attention because the government sheltered the energy sector from divestment movements.^{14, 21} However, the divestment unrest was not primarily focused on challenging the government itself, but rather a specific project supported by it.

This paper will tackle the subject of how governments react to divestment pressures through the analysis of the Brazilian divestment case, which is to the best of my knowledge the first time in history that a federal government is the main target of a divestment movement due to environmental degradation. Although other governments were indeed the main focus of divestment efforts, such as in Myanmar and Sudan, these cases were motivated by human rights violations, not environmental issues.^{9, 17, 19, 27} The Brazilian and Australian cases have some similarities: in both cases, the motivation for divestment pressure was mainly environmental, and important sectors for the respective economies were targeted (coal in Australia and livestock, soy, and other products in Brazil). However, there are important differences as well: first, the efforts against the Carmichael mine were part of a broader international climate action movement (anti-mining campaign), while in Brazil it was a more singular movement, highlighting the different levels of interaction between civil society and the private sector. Second, in Brazil, the Amazon rainforest issue is contentious, with different parties attacking each other for the topic, while in Australia, the coal sector was supported by both major political parties. Finally, in Australia, divestment pressure was directed at a specific project of a multinational company supported by the government, while in Brazil the pressure was broader, directed at the government itself and at various companies from different sectors that could be benefiting from the forest fires.^{8, 11, 21} Therefore, studying the extent to which a government may be affected by divestment pressures related to environmental contentious issues and how it responds to them, particularly in a globalized financial world facing increasing challenges from the climate crisis, can provide valuable contributions for the literature. Such analysis also provides insights into current trends within the private financial sector related to environmental, social, and governance (ESG) parameters, and how they are changing the incentives of private organizations when making investment and divestment decisions, in line with the developments and dynamics of the Brazilian case.

OVERVIEW - THE BRAZILIAN DIVESTMENT CASE

Jair Bolsonaro, a seasoned congressman with more than twenty years of political experience, took office as Brazil's president in January 2019. During his election campaign, he shared polemical statements about his planned environmental policies, such as Brazil's withdrawal from the Paris Agreement and the dissolution of the Ministry of Environment (neither of which happened).³⁰ ³¹ The first indications that Bolsonaro's environmental policies were flawed came when eight former environment ministries from past administrations released a manifesto criticizing them,³² and the National Institute for Spatial Researches (INPE) publicly highlighted the 278% year-on-year increase in deforestation in the Amazon rainforest in July.⁶ Soon came news of forest fires in the Amazon, such as an 82% increase in wildfires between January and August compared to the same period in 2018,³³ the "Day of Fire" when farmers and ranchers set a coordinated series of fires in the Amazon rainforest and adjacent lands to show their support for Bolsonaro,³⁴ and when the sky suddenly darkened in the middle of the day in São Paulo, Brazil's largest city, located nearly 1800 kilometers from the Amazon rainforest, because of the smoke coming from the Amazon fires.³⁵

This situation attracted the world's attention, including from foreign countries, international NGOs, multinational companies, and investment funds, among others. They began to criticize the Brazilian federal government's handling of the forest fires and demanded action to solve the problem by publishing statements and reports, writing petitions, and taking other actions that will be later detailed in this essay. On the other hand, the Bolsonaro government responded to these criticisms with a series of reactions, such as the deployment of the army to control the fires,³⁶ the enactment of a ban on forest fires in the Amazon,³⁷ and the creation of the Amazon Council.³⁸

The private sector, and institutional investors in particular, exerted a range of pressures, threatening to divest from the government, as well as from companies potentially linked to the fires, such as the livestock, soybean, and cellulose sectors with large companies like Marfrig Global Foods, Cargill, and Suzano. One example of this pressure was when 251 institutional

investors with approximately \$17.7 trillion in assets under management, such as the California Public Employees’ Retirement System (CalPERS), China Asset Management Co., and the Church of Sweden, demanded action on deforestation from companies in Brazil. They stated, “We are concerned about the financial impact deforestation may have on investee companies, by potentially increasing reputational, operational, and regulatory risks. Considering increasing deforestation rates and recent fires in the Amazon, we are concerned that companies exposed to potential deforestation in their Brazilian operations and supply chains will face increasing difficulty accessing international markets.”³⁹

Further evidence was that 34 international financial institutions managing \$4.5 trillion in assets sent letters to Brazilian embassies in seven countries calling for meetings and expressing concern that Brazil was removing protections for the environment and indigenous communities, therefore “creating widespread uncertainty about the conditions for investing.”⁴⁰ In addition, the investors wrote, “[We] urge the government of Brazil to demonstrate clear commitment to eliminating deforestation and protecting the rights of indigenous peoples.”⁴⁰ However, after more than a year of pressure, the only divestment that occurred was by the public limited company Nordea Asset Management, which withdrew its \$47 million investment in the Brazilian meat company JBS and suspended the purchases of Brazilian government bonds.^{41, 42}

The timelines below provide a chronological overview of key events within this dynamic of external and internal pressures, and government responses to them. They cover events between 2019 and 2020, with a focus on the months of August and September, when higher rates of wildfire typically occur. Pressures emanating from various groups are shown below the x-axis, while government responses to them are depicted above it. A variety of sources were used to produce them, including newspaper articles and official statements from organizations, which can be found in the appendix.

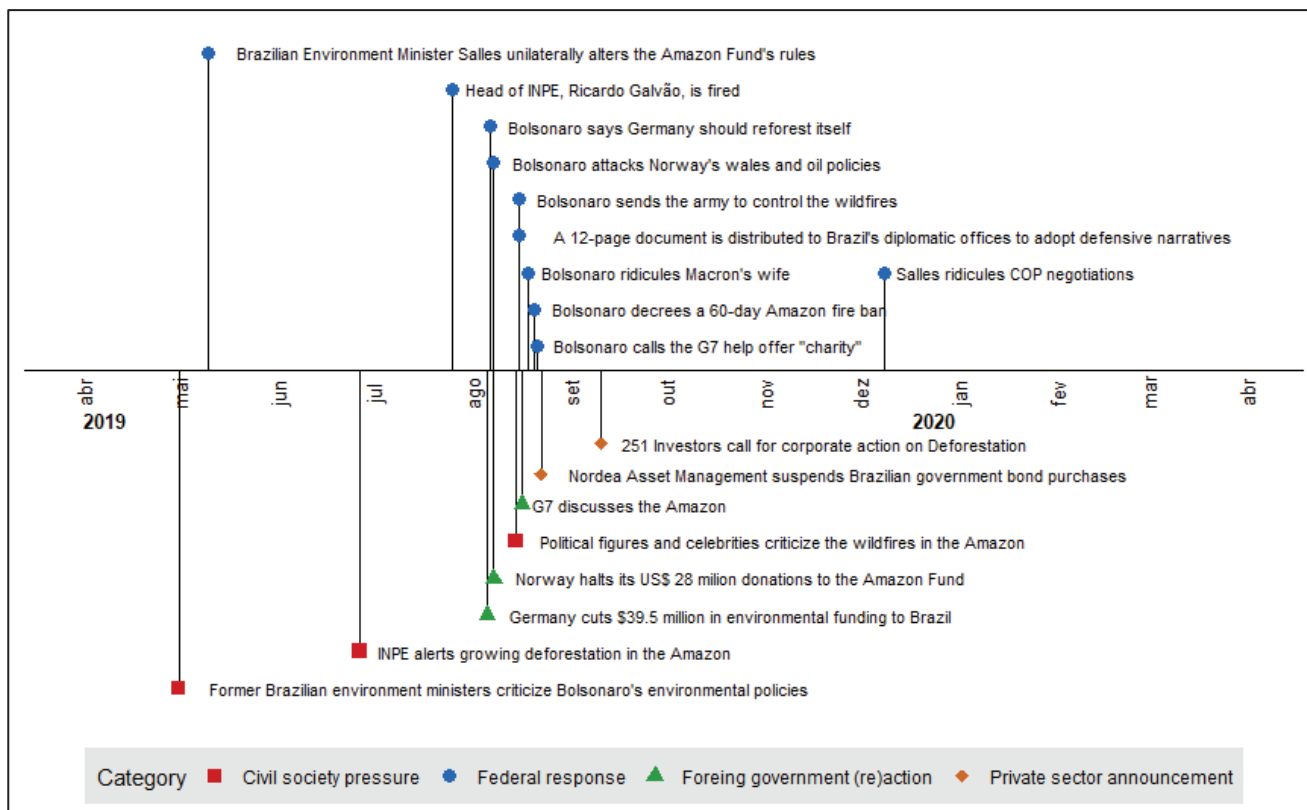


Figure 1. Key events during 2019.

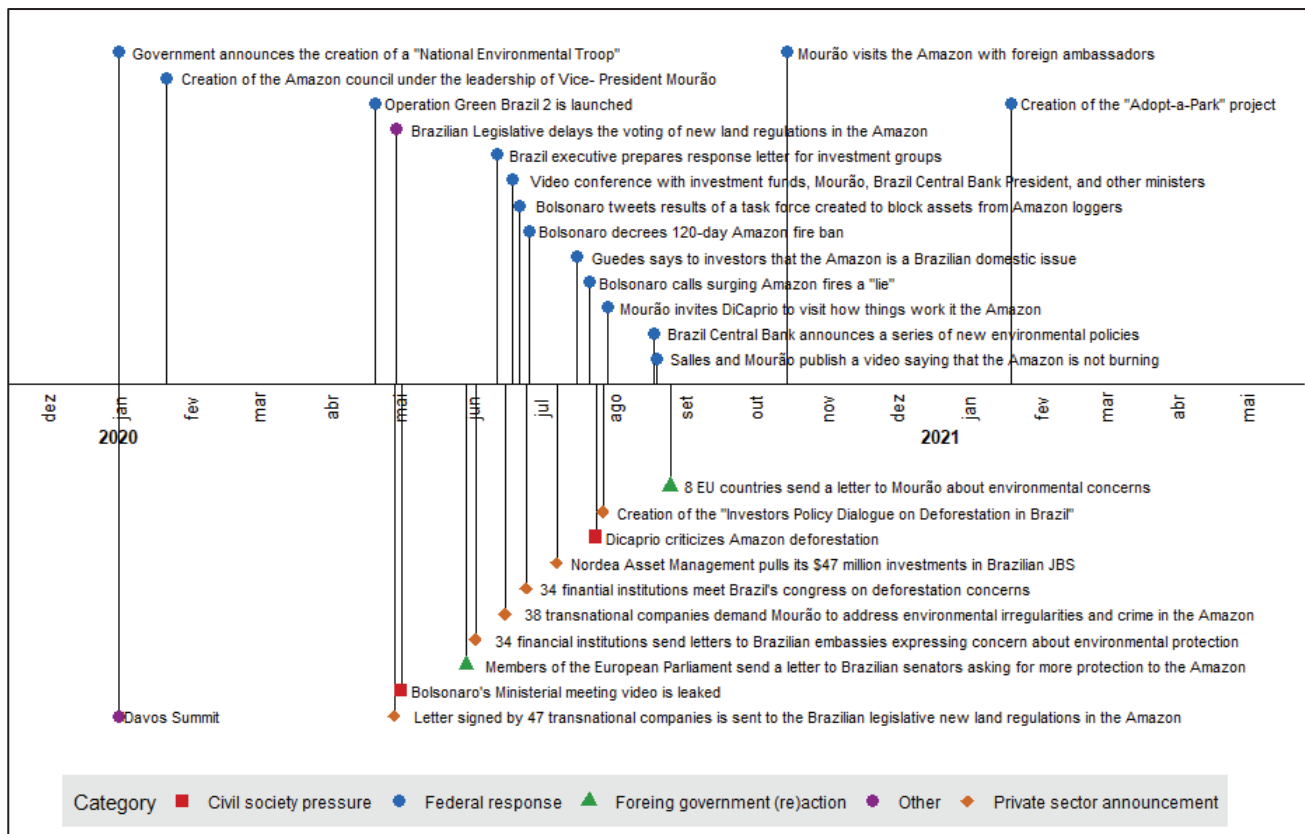


Figure 2. Key events during 2020 and 2021.

The timelines demonstrate that Bolsonaro’s government adopted a range of reactions to the demands and criticisms of various groups, some of which were more aggressive while others had a more serious and conciliatory tone. The following sections analyze these responses and explore the reasons why particular responses were chosen to address the pressures of each group.

METHODS AND PROCEDURES

This paper’s research methodology is based on in-depth virtual interviews conducted during the second half of 2021 with a group of investment portfolio managers, high-level government officials, and civil society representatives all directly and indirectly involved with the Brazilian divestment dynamics, in a methodological similar way to the work done by Christophers,²² which attempted to interview various and diverse institutional investor representatives and stopped seeking further interviews once the information gathered began to repeat itself. Since the Brazilian case is still very recent, this interview method was the preferred strategy because it not only enabled the author to get a more detailed and clearer picture of the whole dynamic by comparing and examining different statements from people coming from different organizations with conflicting interests, but also gave him access to information that is not otherwise available to the public, not even in newspapers and official reports. These, in turn, were useful in evaluating this paper’s hypothesis that governments are more responsive to institutional investors’ pressure in comparison to foreign governments and NGOs when investors play a major role in the incumbent winning coalition and financial capital is scarce.

All interview materials (questions, explanations, and scripts) were submitted to the analysis of the Ethics Compliance Committee on Research Involving Human Beings of the Getulio Vargas Foundation. After receiving their approval (Decision n. 161/2021 emitted on the 2nd of August 2021), the author proceeded to send out the invitations and conduct the interviews. More than 210 invitations to different professionals were made both through intermediaries known to the researcher as well as through institutional contact points in each interviewee’s respective organization. The interview invitations were sent by email, followed by websites’ contact forms, and LinkedIn, Facebook, Twitter, and Instagram account messages. The choice of which organizations and persons to invite was first based on the relevance to the divestment dynamics in Brazil (if the organization was directly involved with exercising divestment pressures, suffering with them, or speaking either in favor or against them, for example), and

secondly with the use of the snowball method. The ratio of invitations made, response rate, and acceptance rate can be seen in the table below (different invited professionals at the same organization were counted separately for all these invitations' numbers).

Area/ Sector	Invites sent	Non-response rate	Rejection rate	Acceptance rate	Interviews conducted
Civil society	64	68.75%	21.87%	9.37%	7
Bolsonaro government areas	21	80.95%	9.52%	9.52%	2
Financial sector	38	71.05%	18.42%	10.52%	4
Political opposition to Bolsonaro	7	71.42%	14.28%	14.28%	1
Brazilian agribusiness sector	37	62.16%	35.13%	2.70%	1

Table 1. Invitations to interviews and response, rejection, and acceptance rates.

The overall acceptance rates were low, but this was already expected since all invitations were made online during the COVID-19 pandemic. However, two groups stand out: first, there was a slightly higher acceptance rate for invitations to the political opposition to Bolsonaro. Since the author had more direct connections with people from this sector, it was easier for him to get efficient recommendations and also have invitations accepted. Second, the acceptance rate was much lower in the Brazilian agribusiness sector. Being one of the sectors most affected by this divestment dynamic, one might assume that they prefer not to talk about the issue unless absolutely necessary.

The fifteen interviews are listed on the table below. These were of fundamental importance for the following points: providing detailed descriptions of processes and mechanisms observed in the context of divestment pressures; perform the process tracing of these mechanisms, thus adding micro-foundations for events and patterns observed at the macro level; empirically verify actors' interests and preferences as well as their initially observed relationships; and analyze the validity of this paper's hypothesis. In order to identify and highlight narrative biases by respondents, a triangulation method was used with information from multiple sources coming from distinct organizations and backgrounds to assess and confirm the convergence of information.⁴³ In addition, to ensure the professional integrity of the interviewees, no more information will be given at the risk of hurting their anonymity.⁴⁴ Seven people related to the civil society (A1 - A7), three people related to the Brazilian government and legislative politics (B1 - B3), and five people associated with the national and international private and financial sector (C1 - C5) were interviewed. All interviewees come from different organizations. The interviews were semi-structured, conducted via videoconference, with a leverage duration of one hour, and with some of the questions, which can be found in the appendix, varying according to the interviewee's background.

Interviewee	Sector
A1	Campaigner at an international environmental NGO
A2	Coordinator of a transnational environmental coalition
A3	Environmental grassroots activist
A4	CEO of a Brazilian environmental NGO
A5	Coordinator at an international foundation and professor at a Brazilian university
A6	Head of the Centre for Sustainability Studies at a Brazilian university
A7	Science director at a research institute focused on the Amazon
B1	Advisor for a Brazilian senator part of the opposition against Bolsonaro
B2	Chief of environment at a Brazilian federal bureau
B3	Member at the Bolsonaro’s Brazilian executive power sphere
C1	Sustainability manager at a Brazilian agribusiness association
C2	Portfolio manager at an investment fund A that threatened to divest
C3	Associate portfolio manager at an investment fund B that threatened to divest
C4	Portfolio manager at an asset management firm that threatened to divest
C5	Director of sustainable investing at an asset management firm that threatened to divest

Table 2. List of interviewees and their backgrounds.

RESULTS

Through the period between 2019 and 2021, different players pursued to pressure the Brazilian government to alter its policies regarding environmental protection, specially concerning the Amazon rainforest and the wildfires happening there. The following sections present the results of this research, particularly in relation to the motivations and strategies of the actors involved in the divestment pressures, the different governmental reactions of the Bolsonaro government, and the overall leverage of divestment threats in the Brazilian case. The interviews were particularly useful in gaining the knowledge and information necessary to understand how the pressures and government reactions within the Brazilian divestment case relate to the hypothesis defended by this paper that governments are more likely to respond to institutional investor pressure when they play a more important role in the incumbent winning coalition, compared to foreign governments and NGOs, and when financial capital is scarce.

MOTIVATIONS AND STRATEGIES

This section analyses the reasons and strategies employed to pressure Bolsonaro’s policies. In order to do that, news, reports, and official statements will be used, besides the interviewees’ perceptions of their own and each other’s categories.

CIVIL SOCIETY

Civil society was one of the players that pursued to pressure the Brazilian government to change its behaviors concerning environmental protection in the Amazon. International NGOs, such as Greenpeace and World Wildlife Fund (WWF), local Brazilian networks, such as the Brazilian Indigenous People Articulation (APIB), and celebrities, like Leonardo DiCaprio, are some examples of players who publicized their dissatisfaction with the wildfires.^{1, 45-50} When it comes to their interests, three environmental activists (A1, A2, A5) stated that these actors focus on democratic agendas related to the vulnerable people and on

the defense of the “common good”, arguing that many of them do have honest concerns about the well-being of nature and the preservation of our world’s climate stability. One of them (A1) emphasized that NGOs are not interested in maximizing profits, which in turn elevates their moral standards. On the other hand, a person of the Bolsonaro’s Brazilian federal government (B3) argued that some of these groups are financed by external players and countries with doubtful intentions to gain power and undermine Brazil’s sovereignty, besides wanting to get more publicity and enhance their popularity.

Concerning their strategies, interviewees from the three branches (A3, A6, B1, C1) highlighted the capacity that NGOs and celebrities have at the communicative arena as their actions shape narratives and share ideas through the media, boosting a topic’s relevance and scope. Moreover, these actors can engage in legislative advocacy by pressuring representatives to demand changes from the federal government within the political system (A3). Besides that, civil society actors also seek to increase the pressure from other players at the Brazilian government. They met and encouraged state representatives from foreign countries to change their positions regarding the Amazon (C5) and pursued to facilitate coordination and cooperation between local networks and international organizations, other NGOs, and governments (C1). The “naming and shaming” method targeted at companies and institutional investors in order to raise their reputational costs of operating or being related to activities linked to the Amazon destruction was also used (A5, B2).

A great number of the interviewees (A1, A4, B1, B2, C2, C4, C5) pointed out to this indirect reputational link between civil society activism and divestment pressures: since NGOs and celebrities influence how society thinks about deforestation and wildfires in the Amazon by shining light on the issue, many clients of the institutional investors organizations can be stimulated to start pressuring them to alter their investment policies (besides constraining other businesses as well by not buying their products). Another important shared view among interviewees (A3, C3, C4, C5) was the existence of a more direct relationship: many NGOs have a direct dialogue with institutional investors through which they make presentations, present research and reports, and even help these investors to monitor the activities of their invested businesses by denouncing when a producer is related to illegal forest destruction in the Amazon. Two environmental activists (A2, A3) even argued that without the civil society pressure, the financial sector would not have engaged with the divestment threats in the first place.

One good illustration given by one interviewed (A5) of the relationship between the civil society activism and the Amazon wildfires was the “Sangue Indígena: Nenhuma Gota a Mais” (“Indigenous Blood: No Drop More”), a one-month tour organized by APIB at the end of 2019.⁵¹ This campaign took a Brazilian indigenous group to visit twelve different countries in Europe, such as Germany and Spain, in order to raise awareness of the situation in Brazil and denounce the environmental and human rights violations happening under Bolsonaro’s presidency. They met with other activists, legislative and executive representatives, agents of companies that had operations in Brazil, and institutional investors with investments in the Brazilian agribusiness sector, besides organizing demonstrations.⁵² Moreover, two of their main activities were denouncing the relationship between the finance sector and the Amazon destruction and highlighting the harmful effects the EU-Mercosur trade agreement could have on the environment.⁵³ Another example was the campaign “Defund Bolsonaro”,⁵⁴ which was launched in September 2020 by a coalition of NGOs calling for more actions from companies, governments, banks, and society to stop financing activities related to the wildfires.

Therefore, it emerged from the interviews that civil society tried to act as norm entrepreneurs in the Brazilian case, stressing that it was wrong to do business with some Brazilian sectors. NGOs and other groups tried to influence the middle players, the institutional investors, to take a stricter stance on forest fires in the Amazon, while also pursuing to influence other governments and public opinion as a whole.

FOREIGN GOVERNMENTS

Different countries have adopted distinct positions in the face of the fires in the Amazon. Some leaders adopted indifferent positions and sent messages of support wishing the situation would improve, sometimes even disposing of resources to help the Brazilian government. This was the case for countries such as the United States and Israel.^{55, 56} However, most of the external state involvement in the issue came from governments placing the blame for the wildfires on Bolsonaro’s decisions, such as France, Germany, and Norway.⁵⁷⁻⁵⁹

These more critical countries had varied reasons to adopt such stances: first, according to some of the interviewees (A2, A3, C4), in some of these countries, large groups of society are genuinely preoccupied with the climate crisis, and therefore demand that their leaders employ diplomacy aimed at combating further environmental destruction. Second, some of them have already invested a great amount of money for environmental protection in Brazil in the last decade through multilateral schemes, such as the Amazon Fund. One professor at a Brazilian university (A5) argued that to see decisions dismantling all the achievements accomplished with the invested resources must feel like a disappointment, and that is why some leaders reprimanded the situation. Third, a senior member of Bolsonaro’s government and two representatives of civil society (A6, A7, B3) emphasized that interest

groups inside those countries might benefit from a damaged Brazilian commodities export-sector, leading them to pressure for actions of their governments. Finally, since climate change can threaten the national security of nations due to extreme weather events, and the balance of the Amazon rainforest is also important for agriculture and climate stability in other countries, some governments could be acting in ways to defend their own economic and national security (A2, A4).^{60, 61}

Foreign countries can exert their pressure through different channels. First, five interviewees with civil society and political backgrounds (A1, A4, A6, B1, B2) highlighted that nations can use diplomatic ways to show their discontent, such as official statements in forums, at conferences, on social media, and on television, as well as by symbolically isolating countries by limiting visits by heads of state to those countries. Second, interviewees from the three branches (A1, A6, B1, B2, C1) pointed out that external states can make use of issue linkage to halt negotiations on other matters such as international commerce. One Environmental grassroots activist (A3) cited the discussions on Brazil's accession to the Organization for Economic Cooperation and Development (OECD) and the EU-Mercosur agreement as two examples of this dynamic, pointing out that Bolsonaro's actions regarding the environment were convenient to delay such conversations because of protectionist groups in countries like France. Third, these governments may bypass the federal government and seek to establish links with subnational leaders, such as governors and mayors (A4, A7). Fourth, as already mentioned, developed countries can invest and have invested money in Brazil, be it by investing in funds, sponsoring programs and initiatives, or purchasing bonds. In this way, they can threaten to stop their investments and even divest what they already have invested, at least according to a science director at a Brazilian research institute focused on the Amazon (A7).

Overall, the interviews provided evidence that foreign countries may have very different interests in pressuring the Brazilian government regarding the Amazon rainforest fires, and that their strategies range from more traditional diplomatic measures to a more invasive approach by reaching out to internal opposition leaderships.

INSTITUTIONAL INVESTORS

The motivations of institutional investors to divest from companies and state-owned enterprises operating in Brazil due to the Amazon rainforest fires are directly related to the notion of "reputation": the reputation of institutional investors, the reputation of the companies in which they invest, and the reputation of the Brazilian government (in this case, the term "reputation" represents the opinions from different audiences, such as customers, that are held about these different actors). Institutional investors depend, among other things, on their clients' preferences. Both the media and the civil society can shape reputations of companies and organizations by deciding which information they are going to spread, which strategies will be used to do it, and who they are going "target" (at least in the case of civil society, according to one campaigner at an international environmental NGO (A1)). Therefore, clients of institutional investors can demand the divestment of specific companies, sectors, and even governments because of these targets' reputations, which in turn might be influenced by the media and the civil society through their communicative capabilities and spread networks.

This direct relationship between the reputation of institutional investors and the reputation of the companies and activities in which they invest is one of the reasons why divestment and the associated pressures can occur. Almost all the interviewees (A1, A2, A5, A6, A7, B1, B2, C1, C2, C4, C5) emphasized that reputational risks create incentives for such institutional investors to pressure to divest, since universities, governments, investment funds, and pension funds have each one specific audiences to whom they are held accountable for. In the case of investment and pension funds, for example, each of them must respond to their client's demands accordingly. If customers or other relevant groups on which they rely do not want their money invested in a company suspected of using child labor, they have the right to ask those responsible for managing their capital to stop investing in that company. Another example of this bottom-up dynamic is when a person concerned about climate change decides to become a client of an investment management company: The person will look for a company that does not invest in fossil fuels or is associated with them in any way. Representatives from the three branches (A6, B2, C1, C2) explained this by arguing that the reputation of an institutional investor organization associated with negative issues, such as deforestation, can generate negative economic consequences for the organization by decreasing its brand value, making it experience lower market performance compared to its competitors due to the difficulty to retain customers and attract new ones, and even suffering from boycotts.

In addition to reputation, one chief of environment at a Brazilian federal bureau and one coordinator of a transnational environmental coalition (A2, B2) argued that uncontrolled deforestation and wildfires in the Amazon rainforest create material financial risks for institutional investors, since the companies they invest that operate in the region suffer from increased reputational and regulatory risks, resulting in exacerbated systemic risk across portfolios. Thus, they fear that their invested assets will drop value as the companies lose access to markets and suffer from reputational damages. Moreover, three experts with civil society backgrounds (A2, A3, A6) mentioned that new regulatory frameworks with stricter laws, such as the new EU taxonomy and climate litigation, are increasingly creating more incentives for institutional investors to consider sustainability aspects when analyzing their investments in order to avoid taxes and fines.⁶² As a result, five participants (A1, A6, C2, C3, C5) pointed out that

institutional investors seeking to avoid negative associations can use divestment threats to demand more transparent disclosures and more effective measures to diminish environmental risks from the companies in which they invest.⁶³

Moreover, the Brazilian case shows that it was not only private companies that had to handle with these pressures: Bolsonaro's government also had to deal with criticism from institutional investors regarding the Amazon wildfires. One example was when 251 Investors with USD \$17.7 trillion in assets under management called for corporate action on deforestation and fires in the Amazon and supported the efforts of Brazilian groups that "pledged the national government to regain control of the situation as a matter of urgency."^{39, 63} An advisor to a Brazilian senator who is part of the opposition to Bolsonaro and one chief of environment at a Brazilian federal bureau (B1, B2) agreed that investors want to invest in countries with stable and foreseeable political, institutional, economic, and environmental regulatory contexts. Both of them further argued that the fact that institutional investors not only pressured the companies related to the Amazon context, but also the Brazilian government itself, demonstrates that they attribute part of the blame for the wildfires and the lack of stability in Brazil to Bolsonaro's policy as well.

At the same time, this aspect shows that the financial sector and institutional investors also believed that changing government behavior was necessary to guarantee a greater stability for their investments, since altering their invested companies' attitudes alone would not be enough to safeguard their reputation. This happens because investors cannot control every single activity in the Amazon, as there are millions of people living near the forest and hundreds of thousands economic activities happening in the region. Every single one of these activities can propagate deforestation and wildfires, and although a certain company might not be related to them, it still is vulnerable to the negative reputational contagion since it operates in the same region.²¹ Because of that, institutional investors also demand policy changes from the Brazilian government in order to control all the activities they cannot control themselves, thus pursuing to mitigate the risk of negative contagion to their investments.

Another motivation raised by some interviewees is the increased societal preoccupation related to the increasing number of extreme weather occurrences. Floods, droughts, and wildfires, among others, have become more frequent in the last few years, obliging people from all around the world to already struggle with the effects of climate change.⁶⁴ Consequently, a greater portion of societies start to preoccupy themselves with such themes, and companies from distinct sectors are now having to respond to more pressure coming from consumers, governments, and shareholders regarding their environmental impacts.^{65, 66} As a result, three interviewees (B1, B3, C3) commented that the environmental, social, and governance (ESG) parameter has been developing in recent years which has led to more scrutiny over companies and organizations, and at the same time has allowed them to use ESG strategies to improve their reputations. A senior member of Bolsonaro's executive government (B3) even argued that this international ESG investment trend was one of the main reasons for the divestment pressures related to the Amazon wildfires, rather than the government's actions or the numbers of forest fires and deforestation. Therefore, the Brazilian divestment pressures also can be understood as an effect of additional concern from individuals and the private sector, especially since Amazon's equilibrium and tipping point are not only essential for Brazil's climate and economic stability, but also for the rest of the world due to the transnational aspect of climate change.^{61, 67}

Institutional investors dispose of powerful strategies to pressure their invested companies and governments. As already mentioned, they can use their assets and the threat to divest to gain leverage in bargains and engagements with linked businesses. This same dynamic can be used when trying to influence governmental decisions through the sale of sovereign bonds, and it takes part within the usual divestment process: investors threaten to divest if they are unsatisfied and their demands are not considered, then the company might accept the exigences and alter its behavior. After engaging with the business, the investors then decide if they will (a) keep threatening to divest because their demands were not sufficiently achieved, (b) no longer do new investments but keep the ones they already have, (c) divest (gradually or all at once), or (d) stop pressuring and continue with business as usual. The engagement can obviously happen without the threat to divest, but according to a sustainability manager at a Brazilian agribusiness association (C1), divestment intimidation sends a more convincing signal that the investors' demands are meaningful, and the companies should take them seriously.

Institutional investors can act in partnership with each other to increase their bargaining power, which was the case when 34 international financial institutions that manage US\$4.5 trillion in assets sent letters to Brazilian embassies in seven countries calling for meetings and expressing concern that Brazil was rolling back environmental protections.⁶⁸ Besides that, one coordinator of a transnational environmental coalition (A2) argued that institutional investors can create backlists for excluded companies operating in a certain country, with the objective of affecting that country's reputation abroad and making capital flows scarcer for it. Related to this, four interviewees (A5, A6, B1, C4) mentioned that shareholders and investors can put so much pressure on companies operating in a certain country that these own enterprises might start to pressure the government themselves to change its public policies and mitigate risks so that they no longer have to deal with investors' threats.

All in all, the interviews provided evidence that institutional investors' motivations for threatening to divest were a mix of financial and reputational risks. Moreover, in terms of their strategies, participants mentioned that divestment threats can be considered part of an engagement approach since they send a signal about how serious institutional investors' demands are.

DIFFERENT GOVERNMENTAL REACTIONS

National governments are constantly confronted with criticism, and although they are not expected to concede to all critiques, responding at least diplomatically can mitigate further conflict while maintaining mutual respect. Such responses can therefore be divided into concrete actions to address the external comments and the tone or style chosen, e.g., a more diplomatic tone or a more adversarial tone. During 2019 and 2021, representatives from foreign countries, civil society, and institutional investors publicly criticized the Brazilian government concerning the Amazon wildfires, each one of them with a different strategy and motivated by distinct reasons, as shown previously. In order to answer the question whether Bolsonaro's government varied its reactions to external criticism, this section will present each governmental reaction along with explanations from the interviews and political analysis of the Brazilian executive branch, a heterogeneous group with sometimes converging, sometimes conflicting interests.

First, concerning NGOs, the media, and celebrities, Bolsonaro was elected with an anti-civil society platform. He adopted the narrative that he would no longer accept the interference of international and domestic non-state players in the Brazilian environment, maintaining a hostile approach towards NGOs and indigenous communities operating and living in the Amazon rainforest since his campaign.² An example of this was when he made a statement right after the first round of voting that said, "Let's put an end to all activism in Brazil."⁶⁹ According to him, these groups only serve to obstruct the potential of exploring forest resources on behalf of foreign countries who benefit from a diminished Brazilian international competitive capacity. He made this clear in his 2020 speech to the UN General Assembly when he spoke about the disinformation campaigns his government allegedly suffered from civil society: "The Brazilian Amazon is known to be extremely rich. This explains the support of international institutions for this campaign, supported by shady interests that are united with Brazilian associations, profiteering and unpatriotic, with the aim of damaging the government and Brazil itself."⁷⁰

When asked about civil society, a senior member of Bolsonaro's government (B3) repeated the same idea, arguing that many NGOs represent foreign countries' interests that benefit from damaging Brazil's environmental reputation. The person stressed that the country was not this pariah that was being sold at the international level, and that it was hypocritical for these organizations to criticize Brazil but not say a word about other countries with high rates of forest fires, such as Australia, thus making the relationship between the federal government and civil society "more complicated" (B3). This mindset was also reproduced by Ricardo Salles, the former environmental minister who worked for Bolsonaro between 2019 and 2021. During his term, he pursued to limit NGOs' influence within public policy decision making and implementation,² besides facilitating natural resources extraction in the region and promoting the private sector expansion into the Amazon by attracting private capital.⁷¹

As for Bolsonaro's reaction to the criticism of the Amazon rainforest wildfires by NGOs and celebrities, the majority of respondents (A1, A4, A5, A6, B2, C1, C2, C3, C4) described them as aggressive, threatening, and hateful, with the aim of delegitimizing and defaming them. Since after his election, the leader cultivated anger against such groups by intimidating the media, threatening NGOs (by trying to criminalize their activities and describing them as cancer, for example),⁷² and pursuing the dismantling of a series of institutional protection frameworks for indigenous communities.² An example regarding his reactions to this category was when he blamed NGOs and indigenous communities to be the ones to have started the wildfires in the Amazon so they could take photos and criticize the government,⁷³ while being financed by the actor Leonardo DiCaprio.⁷⁴ In most of these cases, Bolsonaro first dismissed the criticisms as true and then cast doubt on the intentions of these players, as if none of the involved NGOs and celebrities were truly preoccupied about the Amazon rainforest or Brazil itself but had clandestine interests.

The reaction to criticism from foreign countries was partly based on the "Common but differentiated responsibilities" principle, which defends the idea that developing countries have the right to engage with less ambitious environmental protection commitments than developed countries, since these have already enjoyed the benefits of an industrialized development that did not care for environmental protection. During one conversation with foreign journalists, Bolsonaro said "We preserve more [rainforest] than anyone. No country in the world has the moral right to talk about the Amazon. You destroyed your own ecosystems."⁷⁵ Two other statements of his that illustrate this characteristic are: "Let's use the riches that God gave us for the wellbeing of our population, you won't get any trouble from the Environment Ministry, nor the Mines and Energy Ministry nor any other."⁷⁶ and "It is now our mission to make progress in harmonizing environmental preservation and biodiversity, with much-needed economic development. One should not, of course, emphasize one more than the other."⁷⁴ In this context, two respondents from civil society (A1, A3) argued that Bolsonaro's government responded aggressively to criticism from abroad and tried to establish the narrative that those countries and groups that feel threatened by Brazil's economic growth are the ones

falsely saying that the Amazon was being destroyed. Therefore, these two participants stated that Bolsonaro was selling himself as the defender of Brazil's international commercial competitiveness with this confrontational approach.

In addition, parts of Bolsonaro's government have also resorted to beliefs related to the "Amazon Paranoia", an exaggerated notion that the Amazon resources are under constant threat of being stolen by foreign players, mainly from the global north.⁶⁶ Backed by his foreign relations Minister Ernesto Araújo and his accusations against globalism and ideology in the international relations,⁷⁷ Bolsonaro pursued to defend Brazil's sovereignty when responding to other governments' criticism of the Amazon rainforest fires. In his 2019 address to the U.N. General Assembly, he said "Using and resorting to these fallacies, certain countries, instead of helping... behaved in a disrespectful manner and with a colonialist spirit, they even called into question that which we hold as a most sacred value, our sovereignty."⁷⁸ Interviewees expressed different perspectives on this issue: one portfolio manager at an investment fund that threatened to divest (C2) mentioned that even though different foreign governments had different reasons to criticize Brazil's handling of the Amazon rainforest wildfires, Bolsonaro's government generalized all criticisms as attacks on Brazilian sovereignty, which made his reactions even more aggressive. Two other civil society participants (A4, A6) emphasized that while more respect and diplomacy had been expected, the aggressive and sovereignty-focused responses showed that Bolsonaro's confrontational approach was intended to gain electoral support with his domestic base.

Some examples of reactions to criticism from foreign governments were when Bolsonaro responded to German Prime Minister Angela Merkel and advised her to use the funds frozen by Germany for Amazon projects to reforest Germany itself,⁷⁹ or when he acknowledged Norway as the country that kills whales and explores oil as a reaction to the Norwegian decision to also freeze the aid to the Amazon Fund.⁸⁰ Ricardo Salles constantly reinforced this position arguing that Brazil would be open to accept foreign aid to the Amazon if the Brazilian government remained in charge to decide how to use those resources, no longer accepting external conditionalities.^{81, 82} Another illustration was when Bolsonaro directly attacked the wife of France's President Emmanuel Macron,⁸³ demonstrating once again the level of hostility adopted by the government. Paulo Guedes, the Minister of Economy, echoed this when he said during an event in the United States that "France, Holland, and Belgium use environmental excuses to block Brazil in the OECD. It is like accusing France of burning Gothic cathedrals, it was an accident."⁸⁴ Nevertheless, two interviewees, one science director at a research institute focused on the Amazon and one member at the Bolsonaro's Brazilian executive power sphere (A7, B3), mentioned that there were some more serious reactions, such as the initiative led by Vice-President Mourão to take ambassadors to visit the Amazon rainforest to convince them that the forest was not on fire.⁸⁵

Finally, regarding reactions toward institutional investors, the majority of respondents from civil society and the private sector (A1, A3, A4, A5, A6, A7, C1, C3, C4) indicated that the Bolsonaro government reacted in a more conciliatory and cognizant manner. According to them, while the government responded aggressively, challenging, delegitimizing, ironically, and sarcastically to the pressure coming from the civil society and foreign governments, the tone toward the financial sector was much more serious, and the demands of institutional investors were heard and considered, indicating that Bolsonaro's government perceived the financial sector as a more relevant factor in this context. After receiving the divestment pressure from this category, the government took a series of measures to convince the private sector that Bolsonaro's administration was committed to fighting the wildfires.

It emerged from almost all interviews (A1, A2, A3, A4, A5, A6, A7, B1, B2, B3, C1, C3, C4) that the creation of the Amazon Council (which already existed since Fernando Henrique Cardoso's presidency in 1995, but it had been left out of use until Bolsonaro decided to utilize it once again), a coordination council to organize conjunctural actions between ministries regarding the Amazon rainforest and to be a focal point for related issues, was one of the Bolsonaro government's main reactions to divestment pressures. Two members of Bolsonaro government's sphere (B2, B3) emphasized that the council should not only ensure coordination between ministries, but also act as a dialogue mechanism with external actors to show what was "really" happening in the Amazon rainforest and what efforts the government was making to reduce deforestation and forest fires. Led by General Hamilton Mourão, the Vice President of Brazil, the Council arranged meetings with international institutional investors to hear their demands and create a channel for dialogue,⁸⁶ dispatched and organized Brazilian troops to fight Amazon rainforest fires in a number of different operations, such as Green Brazil Operation 2,⁸⁷ announced federal decrees forbidding fires for farming or other purposes in the Amazon,⁸⁷ and conducted the aforementioned trips with foreign ambassadors,⁸⁵ among other activities. A portfolio manager at an asset management firm that threatened to divest (C4) and participated in some of these meetings promoted by the Amazon Council emphasized that they included companies, representatives from other ministries, such as the ministries of environment and agriculture, and executives from the Central Bank of Brazil. In this regard, one science director at a research institute focused on the Amazon (A7) mentioned that the Ministry of Agriculture also worked with the financial sector and international institutional investors to maintain good relations with them.

On the other hand, almost all the interviewees also criticized the effectiveness of such measures in addressing the environmental problems they were supposed to fix. Several respondents (A4, A6, A7, B1, C2, C3) said that the council was a marketing and greenwashing strategy of the government, which did not serve to solve environmental problems, but only to improve its reputation and public relations. Four of them (A4, A6, A7, B1) even used the same idiomatic expression to characterize the Amazon Council, “para inglês ver,” which means “just for show.” Three interviewees (A1, A2, C2) argued that if the government was really committed to addressing environmental problems, it would have used the institutions that already existed, such as IBAMA and ICMBio, instead of creating a new branch. In addition, five respondents (A1, A3, A5, A7, B1) felt that the efforts and actions promoted by the Council were too costly and provided insufficient results, partly due to the lack of capacity of the Brazilian Army and partly due to limited participation and coordination with civil society.

One coordinator at an international foundation and professor at a Brazilian university (A5) and one senior member of Bolsonaro’s executive government (B3) highlighted that Bolsonaro’s elevation of Mourão to a leadership position in the Amazon Council removed some of Salles’ power and brought in a new person to deal with external criticism. This in itself was another reaction to the divestment pressures, since Salles’ reputation was already eroding as many civil society actors were also blaming his policies for the destruction in the Amazon,² and Mourão was recognized as someone with a good knowledge of the dynamics in the region, turning him into an experienced character to deal with this sensitive issue (B3). Thus, the dispute within the executive branch over who should take care of the situation in the Amazon, Mourão or Salles, shows that Bolsonaro did not ignore pressure from institutional investors, as he tried to select a better prepared person to handle the criticism.

As for Salles himself, one chief of environment at a Brazilian federal bureau (B2) mentioned that two programs he launched were also responses to divestment pressures. One was the “Adopt-a-park” project, which gives the opportunity to private domestic and foreign companies to invest in specific national parks in the Amazon to guarantee their conservation with full transparency.⁸⁸ According to the ex-minister, “In the face of criticism and pressure, we open an opportunity for Brazilians and foreigners to participate in solving the problem. This is an important change from the government. If there was a criticism that the government was not open to outside help, this criticism no longer makes sense.”⁸⁹ In addition, another program launched by Salles in response to external demands was “Forest+”, with the objective to “create, promote, and consolidate the environmental services market, recognizing and valuing environmental activities carried out and encouraging their monetary and non-monetary retribution.”⁹⁰

Moreover, one interviewee from each sector (A3, B2, C4) argued that changes were made to the Brazilian financial and banking system in response to the divestment pressures. They emphasized that the Central Bank of Brazil (BC), a Brazilian autarchy directly related to the government, adopted changes to their financial rules as a reaction to the institutional investors’ pressure. The president of the branch during the studied period, Roberto Campos Neto, who participated in some of the meetings of the Amazon Council with institutional investors,⁹¹ included the theme of sustainability in the bank’s agenda.⁹² As a result, a series of changes related to environmental protection were added not only for the bank’s guidelines itself, but also for the whole National Financial System. The new policies are focused on credit, supervision, and regulation rules, with the inclusion of the “climate risk” concept to stress tests and regulation protocols, for example.⁹³ Another change was to offer a 20% higher rural credit for those groups and individuals who complied with specific environmental standards,⁹⁴ and also to intensify cooperation with the Climate Bonds Initiative (CBI) through new investment plans.⁹⁵ Besides that, the BC signaled its intention to include sustainability criteria for the selection of new investments and for the selection of companies that would manage international reserves.⁹³ In addition, the bank committed to preparing annual reports on socio-economic risks, implementing the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), and adopting everyday environmentally friendly measures at its facilities, such as promoting the use of bicycles and reducing plastic consumption.⁹²

One chief of environment at a Brazilian federal bureau (B2) cited perhaps the only confrontational response from a member of Bolsonaro’s government directed at private institutional investors. The Economy Minister Paulo Guedes told investors, businessmen, diplomats, and academics at an event in Washington, “We understand the concern of you, because you have cleared your forests. You want to spare us from clearing our forest, as you have cleared yours. We know that you had civil wars, you also had slavery, and we just ask you to be as kind as we are kind. You killed your Indians, you didn’t miscegenate. The military is saying, thank you for your concern, but this is our land. We don’t need to deforest the Amazon to produce agricultural products.”⁸⁴ Although it was a confrontational response, the interviewee (B2) also said that it was an isolated incident and that Guedes soon changed his attitude towards institutional investors.

It is not the goal of this paper to assess whether the Brazilian government’s responses to institutional investors’ pressure have been effective in addressing the Amazon wildfires problem. However, the interviewees’ positions on this issue contribute to a general understanding of the divestment dynamic and also to their own positionalities in this context. A member at the Bolsonaro’s Brazilian executive power sphere (B3) considered that the increasing export figures and the low number of institutional investors that have actually divested indicate that the political and media pressure from foreign countries and NGOs

was not sufficient to weaken the credibility of Bolsonaro's government. Furthermore, four respondents from civil society (A1, A2, A4, A5) felt that divestment pressure had indeed prompted the government to act, but that the measures were not enough to address the environmental problems in the Amazon rainforest. They pointed, for example, to the ongoing deforestation, forest fires, lack of impunity for those responsible for the crimes, the new laws that encourage the dismantling of regulatory agencies, and the tightening of land laws. In addition, six interviewees from different backgrounds (A3, A7, B1, C1, C2, C3) agreed that while government responses to divestment pressures were insufficient, the pressures succeeded in raising the visibility of the issue in public debate and creating more incentives for the private sector in Brazil to adopt new and more concrete environmental standards and policies, while also demanding more actions from the government. Moreover, one chief of environment at a Brazilian federal bureau (B2) believed that the pressure was successful in bringing about positive changes in the Bolsonaro government, citing the new financial regulations adopted by the BC as evidence of this.

Regarding the limits of divestment strategies, four participants (A2, B2, C4, C5) emphasized that after one institutional investor divests, another can buy up the sold part, showing that these movements need to take place on a large scale to overcome the challenges of collective action, as the literature suggests. It was highlighted, including by two professionals from investment organizations that threatened to divest (C4, C5), that because of this constraint, institutional investors often prefer to use their voices by engaging with the companies and governments in which they invest rather than opting to exit them and losing the opportunity to help these companies make the necessary transition to more investor-friendly operations. Therefore, it could be argued that the pressure to divest was exerted as a bargaining strategy: not necessarily to divest, but to gain more leverage and increase incentives for companies and the government to do more about the Amazon rainforest situation.

The interviews provided ample evidence that the Brazilian government under Bolsonaro's leadership has varied its reactions to external criticism of the Amazon rainforest wildfires. Almost all the interviewees (A1, A3, A4, A5, A6, A7, C1, C2, C3, C4) agreed that the government did indeed take different approaches to dealing with criticism from civil society, foreign governments, and institutional investors. Overall, no aggressive messages or reactions were sent to institutional investors by Bolsonaro or his government officials, especially when compared to the tone used to answer criticisms from civil society and foreign countries. Furthermore, more concrete actions were taken to respond to the divestment pressures from institutional investors. This demonstrates how the international private sector played a more important role for Bolsonaro's government than the other two categories (only two of the interviewees had a different opinion in this regard: an advisor for a Brazilian senator part of the opposition against Bolsonaro (B1) argued that the government was aggressive and intransigent in responding to all criticisms; and a member at the Bolsonaro's Brazilian executive power sphere (B3) defended that there was no different policy for each actor). This paper argues that the divestment pressures from institutional investors were affecting the president's winning coalition, besides aggravating the capital inflow to the country. Therefore, adopting a more conciliatory and serious stand in front of their demands was a strategic decision.

THE LEVERAGE OF THE DIVESTMENT THREATS

This paper assesses the hypothesis that governments are more responsive to institutional investors' pressure in comparison to foreign governments and NGOs when the first plays a major role in the incumbent winning coalition and when financial capital is scarce. In his selectorate theory, Bueno de Mesquita⁹⁶ defines a winning coalition as the group without whose support a leader cannot remain in office. In Bolsonaro's case, the subsets that compose such categories are the military, the agribusiness, the evangelical church, and right-wing ideological enthusiasts. This section will argue that the divestment pressures have affected most of them in a way that foreign countries and civil society's criticisms have not, creating incentives to Bolsonaro to react to institutional investors in a more respectful and cognizant way in order to maintain his winning coalition's loyalty. Besides that, the risk of divestment put additional weight on dealing with institutional investors properly because Brazil is not a capital-intensive economy,⁹⁷ Bolsonaro's economic strategy relied on increasing incoming capital flows, and COVID-19 aggravated even more the international capital supply.

One reason Bolsonaro reacted to institutional investors' pressure in a more solemn way was his electoral preoccupation. Taking the assumption that every leader's main objective is to stay in power, the Brazilian president could be worried that by challenging the international financial sector, some of his supporters would disapprove this action and no longer support him for reelection. Such a dynamic did not happen with NGOs, since his electorate voted for him even after his aggressive statements during the campaign. It was also not the case for foreign countries, who were easily countered with the nationalistic and patriotic discourse used by Bolsonaro to defend his actions, as already explained. However, in the case of the institutional investors, one of Bolsonaro's strongest electoral promises was to adopt more liberal economic measures after being elected. Among the promised projects are the privatization of state-owned bureaus and subsidiaries, the attraction of more foreign capital into Brazil, implementing budget cuts on administrative and pensions systems, and less intervention in the economy.⁹⁸ The announcement that Paulo Guedes would be his economy minister was made even before the end of the presidential election, proving that Bolsonaro planned on raising support by portraying himself as a supporter of the "market" and the private sector, since Guedes

was a well-known figure within the business community (one chief of environment at a Brazilian federal bureau (B2) even mentioned that Guedes was pressured by institutional investors during the Davos 2020 summit regarding environmental issues). As a result, two interviewees (A1, C3) stated that antagonizing the institutional investors, who are part of the private sector and can be associated with economic liberal agendas, on the issue of the Amazon wildfires would create a contradiction with one of Bolsonaro's main electoral agendas, possibly making him lose public support.

The divestment pressures from institutional investors were not only focused on the government, but also on a series of national and multinational companies of the agribusiness sector operating in the Amazon region. In order to maintain their investments safe and therefore protect their businesses, such companies have adopted two strategies: Three participants (A6, C1, C4) argued that the first one was to put into practice corrective measures, such as improving their supply chains' traceability capacity and other ESG-related moves. This, in turn, would provide them with results to present to investors to prove they are committed to meeting their demands and thus retain their access to capital. The second one was to request the Brazilian government to improve its relationship with institutional investors. Investment decisions are made based on a series of factors besides the ones related to a specific company, and the political, economic, and environmental context of a country also are considered by financiers. Therefore, in order to avoid the ripple effect of negative reputational contagion from disengaged firms and producers, as presented by the director of sustainable investing at an asset management firm that threatened to divest (C5), affected businesses have pressured the government to take actions capable of convincing the investors of the country's stability.⁹⁹ According to a portfolio manager at an asset management firm that threatened to divest (C4), this pressure was applied in the form of public letters, formal statements to the press, and meetings with members of the government, congress, and civil society. One science director at a research institute focused on the Amazon (A7) mentioned that some agribusinesses even attended the COP meetings to defend their reputation through alternative strategies.

In Brazil, the bull bench ("bancada do boi") is the group of deputies and senators in the legislative power that represent the interests of the agribusiness sector. Bolsonaro relies on the support of this group, among others, to enable his government to pass laws and fight for its interests in the House of Representatives and in the Senate. As Bolsonaro's policies facilitated mining, agricultural, and hunting activities in the Amazon rainforest,^{76, 100} and distributed amnesties for illegal deforestation,¹⁰¹ these players had incentives to continue to be part of his winning coalition.² According to the head of the Centre for Sustainability Studies at a Brazilian university (A6), when the agribusiness companies started to get pressured with divestment threats by institutional investors, they looked for these bull bench representatives in the legislative for help to their sectors, since many of these members have received and still receive some kind of political and economic support from these businesses to be (re)elected. In turn, these deputies demanded the executive power to alter its behavior to alleviate the pressure from the agribusiness affected businesses.^{102, 103} As a result, Bolsonaro's government adopted a conciliatory tone to the institutional investors' demand as a way to safeguard his own winning coalition support.

However, three interviewees (A7, C1, C4) emphasized that it is important to recognize that the agribusiness sector is not a homogeneous group either: While some agribusiness companies supporting Bolsonaro's aggressiveness towards foreign players have their operations focused on the domestic markets, other organizations are more export-orientated, meaning that they are more reliable on good diplomatic and cooperative Brazilian relations abroad to diminish commerce barriers and bring greater stability to trade agreements, besides being more vulnerable to external demands since many of them are multinationals (affiliates) who have to respond to their corporate headquarters abroad. For this group, for example, the obstruction of the EU-Mercosur agreement represents a setback on their agenda, since it would bring a great deal of new commerce opportunities for them, as one grassroots environmental activist pointed out (A3). As a result, these two groups often have conflicting interests and seek to influence the Agribusiness Ministry and legislative representatives to prioritize each of their visions (C1).

Finally, one must consider that one of the biggest leverage institutional investors have is their capital. Several interviewees, many of whom are from the financial sector (A4, C1, C3, C4), emphasized that institutional investors represent money and that their decisions could have a direct impact on the Brazilian economy, and therefore the Brazilian government has responded better to their criticism. One associate portfolio manager at an investment fund that threatened to divest (C3) explained that many governments rely on foreign capital to administer their national debts and handle their exchange-rate balance. Added to that, the COVID-19 pandemic increased governments' need for foreign capital as national incomes decreased with the urgency to apply quarantine measures. Relatedly, foreign capital supply diminished as many investors reallocated their capital to safer countries in a "flight to quality" movement.¹⁰⁴ As a result, the decisions of investors became more relevant for companies and states as the health crisis advanced.

In Brazil, foreign investors withdrew \$50.9 billion from the Brazilian stock and bond market between June 2019 and June 2020, considered one of the worst historical trends in the country's history.¹⁰⁴ Related to this, Roberto Campos Neto, president of the BC, stated in June 2020 that the country had lost more investments during the pandemic in comparison with the world average,

and that the federal environmental handling contributed to it.¹⁰⁵ With a high public debt to operate and economic plans based on attracting foreign capital to carry out key privatizations and tax adjustments, one chief of environment at a Brazilian federal bureau (B2) indicated that Paulo Guedes was another proponent of the idea that the demands of institutional investors should be considered. Besides him, another participant of the financial sector (C4) added that the own private financial system in Brazil, represented by major private banks, such as Bradesco and Itaú, became uncertain about the whole financial system balance and demanded a better response to institutional investors.

This section has argued that the reason Bolsonaro’s government has been more conciliatory and responsive to institutional investor criticism is related to Bolsonaro’s winning coalition and the need for foreign capital. While the confrontational responses toward civil society and foreign states can be explained by the more right-wing ideological groups and the Brazilian army in his government, the reactions toward institutional investors can be explained by the fact that Bolsonaro was elected on the basis of liberal economic promises and governed with strong support from agribusiness companies. Therefore, he tried to maintain the liberal coherence promised during the election while responding to the demands of parts of the agribusiness sector. In addition, the need for investments and a stable flow of capital, especially during the COVID-19 pandemic, provided extra leverage for the institutional investors’ pressures. As a result, institutional investors’ demands regarding the Amazon rainforest fires were met with a more professional tone and with costly signals from the government.

DISCUSSION

Bolsonaro has not been the only Brazilian leader to deal with external criticism due to environmental concerns. Since re-democratization in Brazil, all presidents up to 2008 recorded higher annual deforestation rates in the Amazon during their time in office than in the last three years under Bolsonaro. Thereafter, there was a steep decline in deforestation rates between 2004 and 2012, followed by relative stability, which reversed under Bolsonaro’s administration, as shown in the following graph (Data retrieved from the Brazilian National Institute for Spatial Research (INPE) website)¹⁰⁶ (Burnt areas do not enter into the calculation of deforestation here, only clear-cutting removal of primary forest vegetation).

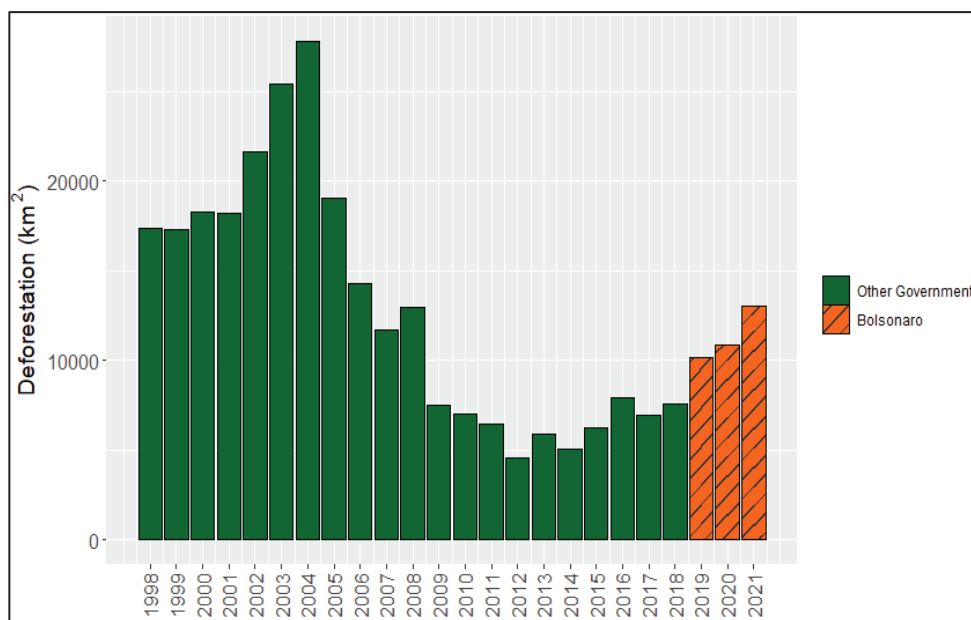


Figure 3. Deforestation in the Brazilian Amazon.

Although it is not this paper’s objective to review investor-government relations in Brazil since re-democratization, one could argue that in addition to the growing Amazonian deforestation rates, Bolsonaro’s government has broken a tradition shared by all his antecessors since 1985: keeping up with the myth of the Brazilian environmental commitment and international climate leadership. According to Viola and Franchini¹⁰⁷, each country possesses a self-image regarding its own level of agency and achievements in the climate arena, being important not only for its own national identity, but also for foreign policy discourse. However, when there is a gap between the self-image discourse and what is done in reality, like credible commitments to stabilize the climate system and climate leadership, the self-image gets distorted into a climate myth.¹⁰⁷ The authors argue that since re-democratization, all Brazilian leaders contributed to the continuous existence of this myth that laid on the fact that, although presidents tried to portray the role of Brazil as a climate leader, there was a gap between their discourse and their real commitments.^{107, 108} Nevertheless, even taking into consideration these contradictions, the myth of a Brazilian commitment to the

environment paved the way for a more inclusive and cooperative environmental governance to exist, beneficial for the country due to the gain of resources (through the Amazon Fund, for example) and international recognition.¹⁰⁸

Bolsonaro was the first president since the re-democratization to give up with the Brazilian myth, as shown in this paper.¹⁰⁷ His decisions and behavior, at least in the first two years of his mandate, signaled to the world that his government would no longer try to portray Brazil as a climate protagonist, but rather abdicate from this position. Among these signals, some that stood out were: being elected on an anti-environment platform with statements against harsh environmental fees for farmers;¹⁰⁹ indicating that he would withdraw Brazil from the Paris Agreement;³⁰ withdrawing the Brazilian candidature to host the 2019 COP;¹¹⁰ engaging in a series of diplomatic animosities with other countries regarding his decisions on the environment, such as Norway and Germany;^{111, 112} and defunding and undermining main Brazilian environmental regulatory agencies, such as IBAMA.^{5, 113} All this evidence proves that Bolsonaro's path of action not only pursued to weaken the country's environmental protection framework, but also disregarded how the world was seeing all these events unfold. They also show how Bolsonaro retreated from maintaining the climate myth alive by no longer bearing the costs of signaling to the international community of the Brazilian climate leadership.¹⁰⁷

As already explained, a country's self-image concerns its own reputation, and trying to keep a credible self-image on environmental issues was a way that past Brazilian presidents demonstrated that Brazil could be a climate leader. Bolsonaro not only rejected that deforestation and climate change were problems, but also encouraged their aggravation with multiple decisions to curb enforcement and surveillance agencies.^{5, 114-118} As signals to the international community regarding Brazil's commitments to environmental protection and climate leadership were substituted by a hostile and apathetic diplomacy, in addition to a series of criticized domestic environmental public policies, Bolsonaro's reputation started to deteriorate, which in turn made it easier for the reputation of companies operating in the country and the institutional investors who invested in those companies to be called into question as well. The media and civil society began to, besides denouncing the federal government itself, shed light on the companies and sectors related to the Amazon wildfires, thus condemning their operations and affecting their reputations. As a result, clients concerned about the environment commenced to pressure the institutional investors to take a stand on the issue. These same investors, motivated by their customers' demands and preoccupied about their own reputations, established strategies to mitigate further deterioration of the situation, including pressuring to divest.

Furthermore, the findings of this article suggest that the international private and financial sectors have increasing influence on national governments with neoliberal agendas and pro-market discourses, especially in a globalized world and in circumstances with limited capital supply. Another contribution of this study to the literature is the finding that the threat of divestment can be used as a bargaining strategy by institutional investors: Since the act of divestment remains a non-preferential decision for them, they may choose to use the threat of divestment to accommodate pressure from their clients and other stakeholders, and continue to do business with firms and governments by seeking constructive engagement with them.

CONCLUSION

This article has examined the Brazilian divestment case, its main dynamics, and complexities. The main contributions of this study are twofold: first, the main motivations and strategies of foreign governments, civil society, and institutional investors were analyzed, highlighting how they differ, with a particular focus on the aspect that institutional investors are mainly concerned about reputational and financial risks in their decision to threaten divestment. Second, through the analysis of in-depth interviews, this paper examined the Bolsonaro government's responses to criticism, showing how different responses were applied to different groups and the reasoning behind such decisions, as well as the leverage of institutional investors in threatening to divest. It was argued that the Brazilian government was more responsive to pressure from institutional investors compared to foreign governments and NGOs, as the former played a key role in the stability of Bolsonaro's winning coalition and his electoral aspirations, and Brazilian financial capital was scarce due to the COVID-19 pandemic.

The study of divestment movements provides us with useful insights into how governmental decision-makers can be influenced, especially when it comes to environmental issues. As the climate crisis continues to worsen, scientists, activists, entrepreneurs, and citizens will face the challenge of pressuring governments to take action to mitigate and adapt to extreme weather events and other climate impacts. In addition, assessing the effects that the new ESG phenomenon is going to produce in the way that private authority is exercised in the international realm is also a vital understanding to the studies of public policies, private governance, and transnational relations. The Brazilian case is a clear example of how a government that is not committed to environmental protection and does not listen to neighboring countries and civil society can be influenced by the financial sector to take more concrete environmental action, especially under the conditions that the winning coalition is dependent on foreign investment and financial capital is scarce. It also shows us how the private sector itself, in this case pressured by investors, can be a driving force for more sustainable businesses, often calling on the government to improve its public policies as well. Further research is needed to examine whether the actions taken by the Bolsonaro government in response to institutional investor

demands were truly effective in dealing with the Amazon wildfires, and whether the entire divestment case in Brazil had any impact on the 2022 Brazilian presidential election.

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PRESS SUMMARY

Devastating forest fires in Brazil’s Amazon rainforest have captured the world’s attention in 2019 and 2020. Within this context, institutional investors threatened to divest from companies potentially linked to the wildfires and to sell government bonds, creating a divestment movement. This article shows that the Brazilian president Jair Bolsonaro’s responses varied for each of the groups criticizing the handling of the environmental situation. It argues that the Brazilian government adopted a more conciliatory

tone and took more concrete actions when responding to institutional investors' demands, compared to the responses for foreign governments and NGOs. Based on fifteen interviews conducted during the second half of 2021 with professionals involved in this divestment case, the paper concludes that institutional investors played a key role in Bolsonaro's winning coalition and electoral aspirations. Moreover, the shortage of financial capital due to the COVID-19 pandemic created further incentives for Bolsonaro to avoid conflicts with institutional investors.