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<http://lattes.cnpq.br/2399713645596610>

How to quote this text: Neto, P. N., 2021. Brazilian-style financialization: CEPACs and the desire to be prime. Translated from Portuguese by Nicholas David Rends. *VIRUS*, 23, December. [online] Available at: <<http://www.nomads.usp.br/virus/virus23/?sec=4&item=1&lang=en>>. [Accessed dd Month yyyy].

ARTICLE SUBMITTED ON AUGUST, 15, 2021/p>

## Abstract

The financialization of urban policy has received growing attention in the academic community, notably due to the substantial changes occurring in recent decades. In the Latin American context, in particular, a series of tensions are produced by the introjection of financialized instruments and practices in contexts in which financialization per se is still being socially constructed. There is a tendency for the Euro-American literature to consider such issues as peripheral financialization, force-fitting Brazilian conditions into a priori epistemological limitations. In this sense, investigating Global South through its own references is fundamental, strengthening an alternative epistemological perspective. This is the starting point of this study, discussing contemporary manifestations of the financialization of urban policies in Brazil and focusing on the use of Certificates of Additional Construction Potential (CEPACs). Considered according to their fundamental constitutive principles, the cases studied suggest certain idiosyncrasies of Brazilian-style financialization, based on a domestic *savoir-faire* that is far from a perfect adaptation to the formulations of the Euro-American literature and requiring a situated discussion, in which the analytical keys for decoding it are still under debate and construction.

**Keywords:** Urban Partnership Operations, Financialization, CEPAC, Global South

## 1 Introduction

The financialization of urban policy has received growing attention in the academic community, notably due to the substantial changes occurring in recent decades, with the major involvement of financial institutions and

market practices and narratives (Crosby and Henneberry, 2015; Büdenbender and Aalbers, 2019; Rolnik, 2015). The extensive adoption of neoliberal discourse and political formulations results in the establishment of “urban products” and their conversion into “(quasi) financial assets” (Aalbers, 2020) connected to a widespread trend of transformations to state institutions, policies, and instruments, with repercussions on urban governance and development (Bryan and Rafferty, 2014; Peck, Theodore, and Brenner, 2013).

On the local scale, connection to these global flows of capital manifests itself through the production of a regulatory and symbolic framework (Weber, 2010) that can dialogue with such financial circuits. Their lexicon and corresponding set of values are imposed as a rule – securities, profitability rates, prospects, and investment risks come to the forefront of urban policy, with effects on the content of public policy itself.

In the Latin American context, in particular, a series of tensions are produced by the introjection of financialized instruments and practices in contexts in which financialization per se is still being socially constructed (Fernandez and Aalbers, 2020; Goldman and Narayan, 2021; Klink and Stroher, 2017). There is a tendency for the Euro-American literature to consider such issues as peripheral financialization (Becker et al, 2010; Lapavistas, 2009; Bonizzi et al, 2019), force-fitting the Latin American experience into the a priori epistemological limitations of a theoretical model produced in and for another context (Sestelo et al, 2017; Bonicenah, 2017).

This theoretical formulation carries the risk of forever classifying Latin America at a level that is lower, backward, or incomplete in relation to (so-called) central countries. As Comaroff and Comaroff (2012) argue, labour and capital are taking radically individual forms in the Global South, and the narrative “from below” needs to be overcome in order to understand the new forms of accumulation that are being defined in this context. Along these lines, Milton Santos (2003) recalls that the homogenising forces of global capital encounter resistance to its expansion at the local level, resulting in distinct processes according to social, economic, and political characteristics.

For Boaventura de Sousa Santos (2010), the immense gulf that characterised the colonial period still continues into the contemporary world, defining the legitimate and appropriate reality of “one side of the line” and relegating the “other side” to invisibility and inadequacy. This issue needs to be addressed from an alternative epistemological narrative, learning from the South using an epistemology of the South, in contrast to the flat world idea of globalization (Roy, 2014). Therefore, it is essential to deepen the debate on issues of the Global South, supported by its own references.

To name Latin American cases according to distant measurements from a particular axis of reference – terming them as peripheral or rudimentary financialization – obscures their idiosyncrasies, relates them to a supposedly linear and globally even phenomenon, and in the final analysis contributes to the historical processes of colonisation of the thinking and praxis of city planning and administration. This statement is not simply empty criticism or definition of insurmountable boundaries of ideas (Roy, 2009), but instead shines a light on the Latin American experience per se and encourages a South-South formulation that is still in dialogue with the contributions of the Global North and establishes formulations for our own reality.

In this sense, investigation of the many facets of financialization in urban policy (Nascimento Neto and Arreortua, 2020) and their affects upon the built environment becomes an important field of research (Sanfelici, 2013), helping to decode the “black box of finance” (Klink and Stroher, 2017), and moving away from generalised readings that tend to flatten out particularities (Fernandez and Aalbers, 2020). These issues define the starting point of this study, which leads to the discussion of contemporary examples of the financialization of urban policies in Brazil, as a key example for Latin America. The continuous creation and regulation of a series of mechanisms in recent decades mean that Brazil stands out for its intensification of the processes of financialization (Sanfelici, 2013), with a direct impact on the fundamental mechanisms of urban policy.

The most relevant instrument within this scenario appears to be the Operação Urbana Consorciada [Urban Partnership Operations] (OUC), enabling local governments to promote urban development projects in Public-Private partnerships in which the sale of additional construction rights allows, in theory, the financing of public works through the recovery of surplus land and property value. The national regulations of the Statute of the City include the possible issuing of Additional Construction Potential Certificates (CEPACs) as a means of fundraising. These financial securities are freely traded on the stock exchange and subsequently converted into additional construction rights, which, according to Aalbers (2020), provide a quintessential example of the financialization of urban policy in Brazil, with its own lexicon, rationale, and modus operandi.

Previous research in this context has shown significant departures from the model experienced by the Global North, pointing to the long trajectory of promoting real estate market and financial actors. In the opposite

direction, the Brazilian model seems to rely mainly on both public resources and actors (Pereira, 2017; Klink and Denaldi, 2014), pointing to the construction of specific meaning and operation in the Brazilian case, which requires further study. This article, therefore, aims to investigate the use of CEPACs in Brazil according to its fundamental principles of the constitution and measure its (dis)alignment from the Euro-American framework of debate about the financialization of urban policy. The article is organised into four sections: firstly (i) addressing basic issues related to the adoption of CEPACs in Urban Partnership Operations and (ii) presenting the main characteristics of their operation in the financial market; then (iii) describing the methodological design and (iv) discussing the Brazilian experience in the light of the questions presented in this introduction.

## **2 CEPACs: regulatory frameworks and analytical developments**

Discussion of CEPACs as a key element of financialization in Brazilian urban policy obliges us to define its starting context in technical-legal terms and theoretical-conceptual reflection. We begin with the repositioning of the role of the State in the promotion of urban development in the 1980s and 1990s (Arantes, 2000; Brenner and Theodore, 2002) when major urban projects began to feature (Sanchez, 2004; Sanfelici, 2013) and public-private partnerships became the “magic solution” (Fix, 2004) for the urban change intended.

Key elements in this process involve approval of the Statute of the City (Federal Law 10.257/2001) and the consequent regulation of a series of urban instruments that can be implemented locally providing they fit within the guidelines established in the Municipal Planning Regulations. These include the Unified Urban Operation (OUC), which is the most controversial (Santoro and Cymbalista, 2008), a symptomatic expression of the Brazilian elite’s attraction to the *dernier cri* of European planning (Maricato and Ferreira, 2002).

The OUC can briefly be described as an urban planning instrument based on the connection of public and private investment. Private funds are attracted through the sale of additional construction rights, which in Brazil is an instrument termed the Onerous Grant of Right to Build (OODC). The very design of this instrument requires the funds raised to be applied exclusively to the perimeter of the original urban project; which in itself is controversial as it tends to reinforce the concentration of public investment in areas of the city where infrastructure is already developed.

The system originated in São Paulo in the 1990s (Sepe and Pereira, 2011), expanding substantially after regulation by the Statute of the City. One such Statute regulation involved the issue of Potential Additional Construction Certificates (CEPACs), securities issued by the city council but traded in public auctions on the Stock Exchange, as a way of fundraising for the onerous grant of right to build. This is regulated by Normative Instruction 401/2003 of the Brazilian Securities and Exchange Commission (CVM) and publicly offered on the Brazilian Stock Exchange, B3.

Through the auction of securities in the financial market, civic authorities can collect sums in advance and provide leverage for public investment in a shorter timeframe. Part of the current literature defends this mechanism, particularly due to its effectiveness in attracting surplus-value prior to the realisation of projects, enabling the implementation of the intended works without burdening the overall budget, which can be released for other purposes such as education or health (Smolka, 2013; Sandroni, 2010; Biderman et al, 2006). This model would in theory benefit from the competition leveraged naturally by the auction format, which would be added to a secondary circuit of trading between investors and property developers. This competitive environment would increase the value of securities and consequently expand the amounts raised in future offerings.

Contrary to expectations, a recent survey by Klink and Stroher (2017) has shown the secondary CEPACs market to be in a fledgling state. Furthermore, the expectation of greater dynamism from this secondary market in fact stimulates a speculative process that has consequences beyond the financial market, with implications on the price per metre of construction, since a logical corollary of increased costs of the Onerous Grant would be to elevate the overall costs of development. So although this mechanism enables funds to be raised in advance, it does so by waiving the key principles of the Statute of the City.

The CEPAC scheme is therefore eroding the material conditions of the city by issuing construction rights according to securities traded on the financial market which can only be converted into additional square metres for a building a posteriori. With this rationale, the logical-rational scheme of property capital, based on maximum extraction of surplus land value and reduction of construction costs (including in terms of the onerous grant) now compete with the operational model of financial capital, which, while valuing increased land prices, also does so in conjunction with an expectation of increased onerous grant price.

A series of studies from an urbanism standpoint have pointed to implementation problems arising from this model, which favours improvements to roads, infrastructure, or iconic architectural projects in already

consolidated areas, fostering a process of gentrification whose key symptom is low investment in social housing (Fix, 2009; Siqueira, 2014, Nascimento Neto and Moreira, 2013; Pessoa and Bógus, 2008; Castro and Pina, 2016). While the major players in this gambling exercise vary between financial and property dealers, questions about equitable access to urban land <sup>1</sup>

There seems to be no doubt that any advantages of the CEPAC model would arise from the extrapolation of traditional speculative logic through the property market, linking it to the logic of the financial market, which might be used to increase government fundraising. It is therefore important to understand the financial behaviour of Urban Operations with CEPACs in Brazil to gain some insight and investigate whether these at least achieve the expected results in terms of maximising fundraising. Understanding of what we call here financial behaviour also allows us to establish points of (de)connection with the Euro-American formulation of financialization theory, contributing to an understanding of the experience of the Global South from its own social reality.

### **3 Methodological design**

To investigate the financial behavior of urban operations with CEPAC, the research is based on an exploratory design based on documentary research. Only five (B3, 2021) of the twenty-five urban operations underway in Brazil have CEPAC offers (Hissa and Araújo, 20), of which three are in the city of São Paulo (Água Espraiada OUC, Faria Lima OUC and Água Branca OUC), one in Rio de Janeiro (Porto Maravilha OUC) and one in Curitiba (Linha Verde OUC). These cases constitute the universe of this research work.

Quarterly reports of each Urban Operation, prepared by the respective local governments and made available by the control bodies (CVM) and securities trading (B3 – Stock Exchange), constitute the primary data source. Complementary technical reports, made available by the city halls, were also collected, thus forming the corpus of analysis of this research. The historical data of offers and operations were consolidated and analyzed in a panel, allowing the identification of temporal patterns based on the set of cases. Complementary, a survey of journalistic articles was carried out on the electronic portals of large-circulation newspapers (Folha de São Paulo, Estadão, G1 Rio de Janeiro, and Bem Paraná) as well as electronic official communications of each city hall.

Complementary data allow the identification of the political discourse in force at the time of the auctions, as well as the manifestations of other actors in civil society and the stock market. The analyzes carried out from the triangulation of data allow the understanding of the Brazilian experience of using CEPAC from its own constitutive principles, investigating whether these reach, at least, the expected results in terms of maximizing the capture of resources.

In each of the three factors, the time variable should be the one necessary for one of the three positions to prevail. The same happens with the other two factors. In architectural design terms, this kind of equation can be put forward as follows: the factor of change would be the production of the design, it demands an idea, in accordance with a schedule of needs and resources that make it feasible in a given time period.

### **4 CEPACs and the imposition of the logic of capital**

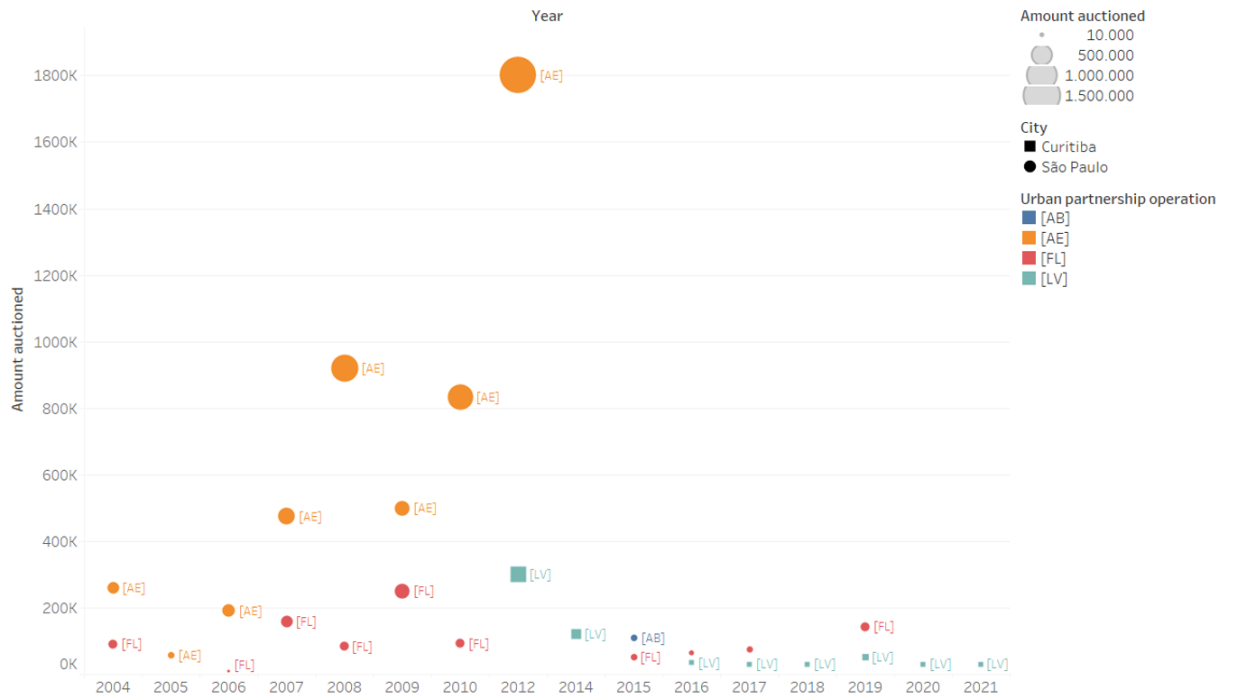
In instrumental terms, it is possible to distinguish between two models in diametrically opposed positions, while still connected by the presence of CEPAC as an operational mechanism of the grant of onerous right to construct. Each context takes a specific form, according to ambivalences between local and global and between each city's material conditions and flow of financial capital. The first model concerns the city of Rio de Janeiro's experience with the Operação Urbana Porto Maravilha, [Wonderful Port Urban Operation] involving the transformation of an area of 5 million square metres in Rio's former port district.

The Porto Maravilha OUC was created in 2009 and stands out as the largest public offering of CEPACs in Brazil, with 6.43 million securities auctioned in a single offer at a minimum unit price of US\$ 99.82<sup>2</sup> – equivalent to total trading of US\$ 641million. One striking feature is the narrative adopted by the then Mayor of Rio, Eduardo Paes, who defended the urban operation as something transformative that changes the logic of city development (Paes, 2011), connecting the idea of CEPAC symbolically with the inclusion of Rio de Janeiro in an advanced environment for attracting urban investment. The financial mechanism and institutional arrangements created were highly complex, with the establishment of two Real estate investment trusts. Although some authors argue that this case shows some proximities to the financialization debates in the international literature (Sarue, 2016), it should be noted that this public offering of CEPACs had only one stakeholder: the Caixa Econômica Federal (CEF), which acquired all the securities through FGTS funds in 2011. This puts the experience directly counter to expectations of maximalisation of funds by civic authorities

based on the rationale of market speculation, given that the offer occurred in a single auction settled at minimum value with public funds.

Beyond the instrumental questions of financial mechanisms, what we in fact have is the transfer of FGTS funds to the financing of urban projects before the advent of Rio de Janeiro's mega-events. Recent reports even indicate a CEF loss of around 440 million US dollars (Nogueira, 2020), raising questions about the interests at stake for achieving the operation at that time. Some research suggests that what we might term a game of marked cards involves a concerted agreement between Rio de Janeiro city government and the CEF even before bidding was made public, contrary to the underlying principles of offering CEPACs (which in theory aim to stimulate the financial market).

The second operational model for OUCs through CEPACs covers the other cases in the country, involving three urban operations in São Paulo (Água Espraiada, Água Branca, and Faria Lima) and one in Curitiba (Linha Verde). Chronologically, the first CEPAC auctions occurred in 2004, involving the Água Espraiada and Faria Lima OUCs, both in São Paulo. These remained the only two cases of application of the seven-year instrument until the public offer of the Porto Maravilha OUC (Rio de Janeiro) in 2011 and the Linha Verde OUC (Paraná), the following year. Finally, the Água Branca – São Paulo) OUC was the only bond offering in 2015. Consolidation of data from the CEPACs offers by urban operation and year (figure 1) demonstrates upward movement in the scope of the Água Espraiada (AE) OUC, which reached an offering of 1.5 million shares in a single year (2012). Different behaviour and significantly lower offers, but on a constant level, can be seen for the Faria Lima (FL) and Linha Verde (LV) OUCs.



**Fig. 1:**Quantity of CEPACs offered by year and urban operation. Source: Author, based on data collected from B3, 2021.

It is also important to understand the extent to which these public offers have benefited from the government's (supposed) power to control demand, which would enable a premium over the original offer price. The results compiled in this research suggest that 15% of the 40 CEPAC auctions already carried out in Brazil resulted in payment above the minimum established value, indicating a broad trend towards a purchase at face value. This is compounded by the high variation in the percentage of fundraising per offer, which even reached levels of only 4% of securities sold, particularly in the May 2019 auction for the LV OUC (figure 2). These findings undermine the central argument in defence of the instrument, namely: the almost certain possibility of reaping benefits for maximising public fundraising from the movements of the financial market. In reality, different Brazilian experiences point to a more complex pattern.

Year of Auction	Quarter of Year	City / Urban Partnership Operation				
		Curitiba [LV]	Rio de Janeiro [PM]	[AB]	São Paulo [AE]	[FL]
2004	3				100,00%	
	4				24,14%	10,10%
2005	4				100,00%	
2006	2				69,98%	
	4					27,29%
2007	1				100,00%	
	2				100,00%	
	4					100,00%
2008	1				100,00%	100,00%
	4				58,41%	
2009	1					55,61%
	3				100,00%	
	4				41,30%	100,00%
2010	2				100,00%	98,36%
	3				76,73%	
2011	2		100,00%			
2012	2	47,20%			100,00%	
2014	2	16,58%				
2015	1			10,34%		
	4					56,84%
2016	2	19,69%				
	3					8,02%
2017	3	25,40%				21,74%
2018	2	10,08%				
2019	2	4,24%				
	4	59,09%				100,00%
2020	4	33,75%				
2021	1	50,24%				

**Fig. 2:** CEPACs according to the percentage of securities purchased in relation to total supply. Source: author, based on data collected from B3, 2021.

By pairing these data with the minimum value established for each distribution, no linear pattern can be seen over the years (figure 3). In fact, different behaviours can be observed for each urban operation, even in the three cases in São Paulo. In this sense, we single out the great increases in the Faria Lima OUC base price – in a region with the most expensive square meter values in São Paulo (Molineiro, 2018; Tieghi, 2021) –, while the values for the Linha Verde OUC in Curitiba – in a region with the lower square meter for residential use (Kowalski, 2018) –, remained at a significantly lower level and without major variations.

City	OUC		Distribution				
			1	2	3	4	5
Curitiba	[LV]	2012	\$36.63				
		2014	\$59.52				
		2016		\$61.54			
		2017		\$61.54			
		2018		\$61.54			
		2019			\$61.54		
		2020			\$61.54		
		2021			\$61.54		
Rio de Janeiro	[PM]	2011	\$99.82				
São Paulo	[AB]	2015	\$283.52				
	[AE]	2004	\$54.95				
		2005	\$67.77				
		2006	\$67.77				
		2007		\$73.26			
		2008			\$84.25	\$97.99	
		2009				\$111.90	
		2010				\$130.95	
		2012					\$164.84
	[FL]	2004	\$201.47				
		2006	\$201.47				
		2007		\$224.36			
		2008		\$238.10			
		2009			\$311.36		
		2010			\$397.44		
		2015				\$1,196.16	
		2016				\$1,196.16	
		2017				\$1,196.16	
		2019					\$1,196.15

**Fig. 3 :** Minimum CEPAC offer value by urban operation and year. Source: author, based on data collected from B3, 2021.

It is important to note that the public distribution of CEPACs and the daily urban operation in this format entails a series of specific costs. For each public offer, the gross amount collected is reduced by the financial agent's remuneration, fees, and settlement fee to a total of 1.2628%. Each public offer also requires payment of the CVM inspection fee, at 0.64% of the offer price. Moreover, an intermediary institution needs to be contracted, responsible for the accounting of securities, together with a supervisory institution, with specific costs negotiated directly.

To make such values tangible in this discussion, the referred financial costs for execution of the Linha Verde (Curitiba – PR) were calculated. This particular case was selected due to the format of available data from the municipal council, which enables the breakdown of values and consequent consolidation of the total cost. The quarterly OUC accounts indicated a total financial cost of US\$ 665,000 between 2012 and 2021, corresponding to 6.8% of the total amount collected. So, what benefits can accrue from the implementation of an urban project via the CEPAC model, given the high variability of market interests? Is adoption of an instrument that subverts the principles of the right to the city, and at high costs, justifiable? What intrinsic advantages of the model outweigh the costs involved? Furthermore, is it justifiable to give up approximately 10% of the amount collected just to be in the select club of municipalities offering securities on the stock exchange? Given that historical data seem to show the CEPAC model's low ability to feed "market appetite" and attracting maximum funds, what and whom does it serve? These questions will be discussed in the following section, which seeks to scrutinise them under the light of the Euro-American formulation of the literature on the financialization of urban policy.

## 5 Conclusions: CEPAC and the desire to be prime

The discussions in this article point to operational inconsistencies in the CEPAC model of Urban Partnership Operations, which has not met the expectations of maximising funds raised by the overpricing, in theory, achieved by auctions. In the final analysis this mismatch raises questions about its own formulation in terms of principles and concepts. Although the Brazilian literature has focused intensely on the urban and social impacts arising from these urban projects, research into their financial logic still invites further study.

This article adds to recent research efforts to explore the financial ramifications of the CEPAC model and the effects these may have on urban policies themselves. Indeed, a central role in shaping the effectiveness of urban transformation according to the performance of the financial operation is taken by the fictitious capital created and the actors managing it. The construction of a narrative of modernisation of urban policy practices and mechanisms is coated in the questionable idea of insertion into global flows of speculative capital, straining the mechanism from its own canons, and allowing us to question whether such financial engineering achieves any benefits for the intended urban transformations.

In this scenario, simultaneously systemic and contextual (Peck, Theodore, and Brenner, 2013), global trends of regulatory reorganization are linked to geographically determined political-institutional arrangements, resulting in different expressions of financialization in urban policy. The cases studied suggest idiosyncrasies in *Brazilian-style financialization* based on a domestic *savoir-faire* that is far from being perfectly adapted to the formulations of the classic Euro-American literature. This is not a question of naively distinguishing the Brazilian experience from a supposedly homogeneous international bloc, but of opposing its reading as becoming of financialization, as advocated in part of the North-Global literature. We need to move away from the epistemological pitfalls arising from the persistent gulf (Santos, 2010) that once again applies labels to our own process of financialization, be it peripheral, truncated, or rudimentary.

Deviating from colonizing labels, the Brazilian experience demonstrates not an initial process of financialization but instead an interwoven process of simulation and reinterpretation which results in the Brazilian experience marked by opaque boundaries between public and private funding and the functional depletion of certain mechanisms, which still retain symbolic weight. What we are arguing for here is a situated discussion in which the analytical keys for decoding it are still under debate and construction. This highlights the importance of approaching Global South issues based on its own references and empirical pieces of evidence, in line with its reality and historical and social constitution.

The results obtained also point to recurrent public discussions connecting the launch of CEPACs to the idea of modernisation, of leveraging construction projects, and insertion into privileged arenas of fundraising. In other words, CEPACs seem to contribute to the formation of political capital for local governments. Allegorically, this is about being prime, about receiving the seal of the market and being included in the select “club of the rich”, in which municipalities are (supposedly) able to create areas of mediation between the built environment and the financial market and exploit the benefits resulting from this relationship. In this sense, the incorporation of models from the Global North for financing urban transformation, without necessary critical reflection, imposes gaps in implementation that in the final analysis result in a process of copying the form without any utility. Further research is needed to understand the motivations that are still able to support this house of cards.

## **Acknowledgment**

We thank the Fundação Araucária and CNPQ for financial support to the “Política habitacional e gestão social da valorização da terra” project through Collaboration Agreement. 015/2020.

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<sup>1</sup> Rolnik (2013, pp. 1063) states that ‘the creation of new opportunities for speculative investments in central-city real estate markets and the construction of megaprojects [...] have greatly affected housing affordability in cities. The result has been the creation of world-class city enclaves for the wealthy and tourists’.

<sup>2</sup> The original Real (Brazilian currency) values were converted into US dollars according to the Exchange rate of R\$ 5.46 to the dollar on October 5, 2021.