

Regulatory Burden and Market Inefficiencies: The Growth of Extra-Legal Housing Societies in Islamabad

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Abstract

Throughout human civilization, housing has been a fundamental requirement, initially based on familial and societal needs. Today, housing continues to be a vital aspect of human civilization, offering shelter, security, and a sense of community worldwide. The primary objective of this research paper is to analyze in detail the factors (information asymmetry, regulatory burden, sludge) that lead to the mushrooming of extra-legal housing societies in Islamabad and how these societies provide an alternative in the context of market failure. These societies don't have official registration and other relevant documents with the appropriate institutions and operate outside the law. We have employed a mixed-method approach, incorporating both qualitative and quantitative data collection techniques. Findings revealed that it takes the CDA, on average, about two and a half years to approve a No Objective Certificate (NOC) for a housing society. However, it is important to note that the timeframe can vary significantly, as the minimum recorded duration for NOC approval stands at 74 days, while the maximum duration reaches a staggering 3460 days. Moreover, commercial and residential prices in legal societies are notably 80% more expensive compared to extra-legal and illegal counterparts. To promote sustainable urban development and prioritize the well-being of consumers this analysis offers possible solutions like strengthening the capacity of the Capital Development Authority (CDA), establishing a specialized unit, ensuring compliance with initial plans, digitizing procedures, implementing a single-window system, and addressing non-compliance tendencies.

Introduction

Throughout human civilization, housing has been a fundamental requirement, initially based on familial and societal needs. Early dwellings were communal spaces, constructed using natural materials from the surrounding environment. As settled communities and agriculture emerged, housing became more structured, giving rise to cities with infrastructure, specialized economies, and centralized governance. Over time, advancements in technology and materials transformed our understanding of living spaces. Today, housing continues to be a vital aspect of human civilization, offering shelter, security, and a sense of community worldwide (Hussein, 2022).

Rapid urbanization and population growth have led to an exponential increase in housing demand in developing countries (*Urban Development.*, 2022). However, the supply of housing has struggled to keep pace, resulting in a severe shortage of shelter, especially for middle and low-income families. To address this crisis, many cities have turned to vertical growth, constructing high-rise buildings to accommodate the rising population. This strategy has proven effective in boosting population densities without sacrificing urban space. Nevertheless, in developing countries like Pakistan, cities such as Islamabad have not embraced vertical growth as rapidly, creating an opportunity for private investors to exploit excessive regulations and promote urban sprawl (Nadeem Ul Haque, 2022). Consequently, unauthorized housing societies are emerging outside city limits, straining existing infrastructure and contributing to environmental degradation (Hassan et al., 2021).

Pakistan's rural-to-urban migration has strained urban housing and infrastructure, resulting in overcrowding and informal settlements (*Illegal Housing and Construction in Pakistan*, 2020). The scarcity of affordable housing has fueled the growth of extra-legal housing societies, particularly in Islamabad, built without proper planning, approvals, or essential amenities (Hassan et al., 2021). Extra-legal housing societies have become a prevalent and rapidly growing trend in Pakistan, offering affordable housing options to urban dwellers who cannot afford properties within the main cities (Hussein, 2022). The cultural significance of home ownership, coupled with a lack of confidence in government agencies and regulatory entities, drives individuals to invest in these societies to avoid high costs, corruption, and bureaucratic hurdles associated with legal housing developments. Despite regulations and approval processes overseen by Local Development Authorities and other regulatory bodies, these housing societies have gained significant traction and economic influence in Pakistan (Hussein, 2022).

Table 1: Types of Housing Societies

Criteria	Illegal Housing Society	Extra-Legal Housing Society	Legal Housing Society
Legality	Completely illegal	Operate in legal grey area	Fully legal
Authorization	Lack proper permission	May have partial permission	Authorized by government
Land Ownership	Occupied illegally	May have ambiguous ownership	Legally owned or leased
Infrastructure	Lack basic amenities	May have basic amenities	Properly developed
Safety Standards	Often lacking	May have some safety measures	Follow safety regulations
Consequences	Risk demolition	Risk eviction	No legal consequences

Source: Field Data

The mushrooming (refers to the rapid and uncontrolled growth or proliferation of extra-legal societies. It suggests that these housing societies are sprouting up or expanding at a fast pace, often without proper regulatory oversight, leading to issues related to land use, property rights, and compliance) with legal standards of extra-legal housing societies in Pakistan can be attributed to various factors, including information asymmetry, excessive regulations, affordability issues, and bureaucratic complexities (Hussein, 2022). Limited availability of affordable housing options and high land prices in city centers have driven people to seek quality residences and a better standard of living in these societies (Nadeem Ul Haque, 2022). Private developers often offer improved utilities and facilities, attracting buyers. However, the legal ambiguity of these societies exposes tenants to risks, necessitating the need for affordable, accessible, and legal housing solutions that prioritize safety and quality standards, ensuring the well-being and dignity of individuals. The rationale for undertaking this study lies in Pakistan's unique socio-economic landscape, characterized by a rapidly increasing urban population, inadequate housing options, which leads to the emergence of extra-legal housing societies. By examining this multifaceted problem within Pakistan, this study aims to gain insights into the specific challenges and opportunities it presents, offering potential solutions that can inform urban development policies and strategies in the country.

Excessive regulatory burden and high compliance costs contribute to the growth of extra-legal housing societies in Pakistan. The complex and time-consuming process of obtaining formal approvals for new housing projects leads developers to resort to building societies on illegally acquired land (Hassan et al., 2021). The regulatory burden also affects tenants who face substandard living conditions and limited access to basic utilities and services. Insufficient resources and capacity within government agencies

responsible for granting approvals further exacerbate delays and frustrations, prompting developers to operate informally.

Extra-legal housing societies have sprung up in Islamabad due to over-regulation and administrative sludge. Sludge, defined as excessive frictions that impede goal achievement and hinder individuals' wishes, creates complexity and burden in processes (Sunstein, 2022). It affects interactions between consumers and public or private institutions, resulting in reduced transaction frequency, resource wastage, and higher opportunity costs. Sludge perpetuates inequality as it requires resources that individuals with fewer resources find harder to access (Nadeem Ul Haque, 2022). Moreover, sludge imposes psychological costs, including frustration, humiliation, and stigma (Moynihan et al., 2016). Furthermore, sludge can be exploited for rent-seeking, restricting economic activity (Nadeem Ul Haque, 2022).

In particular, the excessive regulation and bureaucratic sludge in the Capital Development Authority (CDA); which aim to develop and maintain the capital city, Islamabad, and its surrounding areas, have led to the proliferation of unregistered housing societies in Islamabad. The lengthy and cumbersome procedures for obtaining a No-Objection Certificate (NOC) from the CDA, along with bureaucratic delays and roadblocks, result in information asymmetry and consumer losses. Over the past 25 years, not a single completion certificate has been issued by the CDA, causing significant delays for individuals who have invested their life savings in these housing societies. Only 10% of housing societies in Islamabad are approved, with a large proportion (69%) not even approaching the CDA for approvals. This highlights the severity of the issue and the systemic challenges faced by the CDA. The sludge in the NOC and approval processes imposes costs on the economy and creates burdensome delays for consumers. Resolving this issue is crucial to protect the interests of consumers who have already invested in unregistered housing societies. (Hassan et al., 2021) ; Hussein, 2022).

Literature Review

Kitching, Hart, & Wilson, defined regulation as a set of laws that are approved by the state and put into effect. These laws can take the form of statutes or other legal documents, and they have the authority to direct or forbid the behavior of people (individuals and organizations). Regulation makes some things feasible, like compliance, but it doesn't necessarily guarantee these things will happen or that agents will experience these impacts in a certain way. In determining whether and how to regulate, policymakers and regulators evaluate the cost of regulation in relation to the benefits it offers. Compliance with regulations increases the cost of doing business for service providers. However, fair regulation maximizes advantages while reducing compliance expenses and unforeseen consequences. It is important to gain a meaningful understanding of the opinions and behavior of citizens to ensure that regulations are effective in practice (National Audit Office, 2021).

On the other hand, excessive regulation can have significantly/different impacts on individuals, businesses, and the economy as a whole. According to a study by Williams and Martinez-Vazquez (2017), high levels of regulatory burden can result in businesses operating outside of the formal economy, where they are not subject to excessive regulations. This can lead to reduced tax revenue for the government and increased risks for consumers, as informal businesses may not comply with health and safety regulations. In addition, excessive regulation can create barriers to entry for new businesses, limiting competition and economic growth (Bickerdyke & Lattimore, 1997). According to a study by Esty and Winston (2009), regulatory burden can lead to reduced innovation, lower productivity, and decreased competitiveness. This can ultimately result in job losses and reduced economic growth. On the other hand, inadequate regulation can result in negative externalities, such as environmental pollution and public health risks (Krupp, 2004). Therefore, there is a need to strike a balance between regulations that ensure the protection of public health and safety and regulations that stifle innovation and economic growth.

In addition to the regulatory burden on businesses, the administrative burden on citizens can also have negative consequences. A third sort of regulation, known as administrative regulation, regulates how governments gather, manage, and distribute funds and resources (Bickerdyke & Lattimore, 1997). (Moynihan et al., 2016) argue that administrative burden creates a financial and time cost for citizens when interacting with government agencies, such as filling out forms, waiting in long lines, and navigating complex procedures. This burden is often disproportionately borne by the least advantaged members of society, who may lack the resources and knowledge to navigate the system efficiently (Moynihan et al., 2016). A study by Howard and Liebman (2008) found that administrative regulations intended to prevent fraud and abuse in government programs, can also create barriers for eligible individuals to access these programs. The study argues that administrative regulations can be too complex and burdensome for both government agencies and citizens and calls for a more streamlined approach to program administration.

Excessive regulation has the opposite impact on businesses operating in the formal economy, because it not only prevents the free flow of information and rights, leading to knowledge asymmetries, but also makes the economy mired in a deadly cycle of sludge. Social scientists use the term sludge for excessive or unjustified frictions that makes it difficult for people to achieve what they want to or to do as they wish (Sunstein, 2021). Sludge or unnecessary frictions includes complicated application forms, duplicative paperwork, waiting in queues to get a task done, time consumed in seeking registrations, licenses, certificates, and other permits (RLCOs), securing attestations/verifications (Nadeem Ul Haque, 2022).

Unnecessary frictions arise from institutional barrier along with and regulatory burden can significantly impact the economy and hinder growth. According to a study by Grajzl and Murrell (2016), the cost of unnecessary frictions can be significant, as it leads to reduced economic activity and increased transaction costs. A study by Chua et al. (2015) revealed that, institutional barriers can include corruption, bureaucracy, and weak rule of law. These barriers can lead to increased transaction costs, as businesses must navigate a complex and opaque regulatory environment. This can be particularly challenging for foreign firms, which may not be familiar with the local regulatory environment.

Laws and regulations that can be enforced at lower costs are more likely to succeed, especially in countries with underdeveloped formal institutions (Li et al., 2020). People who lack certain resources (such as cognitive, financial, or educational resources) typically have to deal with more friction and red tape and have less ability to handle their demands (Moynihan et al., 2016). One of the key challenges of sludge is its impact on individuals who are trying to access services or complete tasks. In many cases, sludge can create unnecessary barriers to entry, making it more difficult for individuals to access important services or benefits. For example, a study by Drexel University found that sludge in the form of complex paperwork and bureaucratic delays made it difficult for low-income individuals to access food stamps, even when they were eligible (Holt & Jarosz, 2019). Similarly, research by the World Bank has shown that sludge in the form of excessive regulatory requirements can make it difficult for small businesses to access credit or operate in a competitive market (World Bank, 2019).

Customers, employees, students, and other people are frequently subjected to "sludge": excessive or unjustified frictions, such as paperwork burdens, that cost time or money, may make life challenging to navigate, may be frustrating, stigmatizing, or embarrassing, and may ultimately prevent people from accessing crucial goods, opportunities, and services (Sunstein, 2022). The lack of proper transfer of information and rights within a legal system forces the city's newcomers to leave the system and go "extralegal." Their only option is to live and function outside of the regular legal system, protecting and mobilizing their assets through their own informal enforceable agreements (Hernando De Soto, 2000).

Sludge can also have significant implications for government. Sludge can reduce the efficiency and effectiveness of government programs and services, making it more difficult for governments to achieve their policy objectives. For example, a study by the Organization for Economic Co-operation and Development (OECD) found that sludge in the form of complex and fragmented regulatory frameworks made it difficult for governments to deliver effective environmental policies (OECD, 2019). Similarly, research by the World Bank has shown that sludge in the form of bureaucratic delays can reduce the efficiency of public procurement processes, leading to delays and cost overruns (World Bank, 2020).

Djankov et al. (2002) study shows that excessive bureaucracy and red tape can significantly impact the ease of doing business in a country. The study found that countries with higher levels of bureaucracy and regulation tended to have lower levels of economic growth and investment. Similarly, a study by World Bank (2021) found that regulatory barriers can increase the cost of starting and running a business, making it more difficult for entrepreneurs to enter the market.

Overview of the illegal and extra-legal housing societies in Islamabad

Illegal and extra-legal housing societies are a major concern in many countries, particularly in the developing world. These societies are often formed by unscrupulous developers who build housing units on land that is either illegally occupied or lacks proper permits and approvals from the government. Illegal housing provides shelter for as much as 86% of a city's population in the third world (Alnsour, 2011). Illegal housing societies have serious economic consequences for the residents. According to Awan et al. (2018), residents of these societies often pay inflated prices for their housing units, which are often of poor quality and lack basic amenities. In addition, because these communities are often located on land that is not legally owned by the developers, residents may be at risk of eviction and loss of their homes.

In Pakistan's big cities, the great majority of housing societies are either unauthorized or do not have the required approval from respective authorities. Islamabad, too, facing the dilemma of illegal private housing societies out of total 204 housing societies in Islamabad 146 (69%) are illegal or extralegal (Hassan et al., 2021). According to current government statistics, 6,007 housing societies out of a total of 8,767 are not registered with the relevant organizations. More than 4,000 incidences of fraud and corruption have been reported involving 500 societies (*Illegal Housing and Construction in Pakistan*, 2020). These fraud cases include the misappropriation of funds, where developers or agents siphon off money intended for the development of a housing society. Another common fraud is the sale of fake or non-existent plots. Developers have sold plots that have already been sold to other buyers, and in many cases, they have sold plots in areas that are not actually designated for housing. The total value of these fraud cases exceeds Rs 300 billion. There are just 2,767 registered housing societies in the country, yet the real estate sector is estimated to be worth between 15 and 20 trillion rupees (News, 2020) (*Illegal Housing and Construction in Pakistan*, 2020). The problem of unapproved housing societies is not limited to Islamabad but is prevalent in many major cities across Pakistan. The situation has become so dire that end-users are now directly impacted by the legal status of these societies.

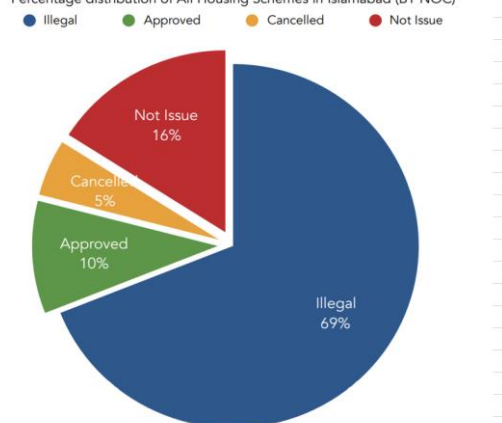
Islamabad is considered one of the most planned capitals in the world. No longer is a planned city,. Moreover, it is observed that “extra-illegal housing societies have multiplied to a significant number due to cumbersome and year-long regulatory authority procedures for issuance of LOP/NOC and then cancellation of the same on minor violations while missing bigger ones”

(Standing Committee on Law and Justice, 2016: 7). All this wastes time and money, as well as depriving individuals of goods, opportunities, and services. Due to these factors, operating outside the law becomes a very appealing option, resulting in the creation of an extra-legal sector, especially in the housing market (News, 2020).

Housing Societies by Legal Status		
	Status of Housing Society	Number
1	Valid NOC	22
	Approved LOP. NOC is yet to be obtained	24
2	Canceled NOC due to non-conformity with CDA rules. LOP is intact.	6
4	Canceled LOP	10
5	Both LOP and NOC canceled	2
6	Not approached CDA for LOP/NOC (Illegal).	140
		204

Source: [CDA](#)

Percentage distribution of All Housing Schemes in Islamabad (BY NOC)



Source: Data is taken from the CDA website.

Islamabad's extra-legal housing societies are a product of both market and state failure. The inability of the market to provide affordable housing for low-income families has led to the emergence of informal settlements, including extra-legal housing societies (Jalil, 2017). At the same time, the state has failed to regulate these settlements and provide basic services, which has perpetuated the cycle of poverty and informal housing (Khan, 2018).

One of the key drivers of the growth of extra-legal housing societies in Islamabad is the high cost of housing in the formal sector. According to Ali et al. (2019), the formal housing market in Islamabad is dominated by high-end developments that are unaffordable for low-income families. This has created a demand for affordable housing, which extra-legal housing societies have exploited. However, without proper regulation, these settlements often lack basic services such as water, sanitation, and electricity.

The failure of the state to regulate extra-legal housing societies is due in part to corruption and a lack of political will (Khan, 2018). According to Sadiq (2017), the municipal authorities responsible for regulating housing and land use in Islamabad often lack the resources and expertise to effectively monitor and enforce regulations. Moreover, some government officials have colluded with developers to facilitate the creation of extra-legal housing societies in exchange for bribes or other forms of compensation. This has allowed developers to operate with impunity, despite the risks posed to residents and the environment.

According to a study of PIDE, few of the reasons behind the high growth of extra-legal housing societies are the burden of regulation, societies indulge in over-selling of plots, Land-related litigation, Deviations from the approved layout plan, and land encroachment (Hassan et al., 2021). The regulatory issue is that, after the private housing company registers with the Security exchange commission Pakistan (SECP), the Companies Ordinance of 1984 lacks any regulatory mechanism to oversee and control the private housing firm's operations (Shahid et al., 2020). The degree to which a particular level of burden is justifiable can be ascertained using an effective process that is based on a professional standard of burden assessment and an evidence-based methodology (Moynihan et al., 2016).

The sludge involved in residential construction permission from the capital development authority (CDA) summarized the three points i.e., the time, monetary cost, and stress involved in getting the permit. The sludge which is involved in obtaining the permission for a residential construction costs the economy around 0.63% of GDP along with a stress level of 4/5 (Nadeem Ul Haque, 2022). Sludge can harm society's most vulnerable individuals and frequently has costs that greatly outweigh the benefits (Sunstein, 2021). The majority of officials are problem creators rather than giving solutions to the problem because of the existing work culture. Processes that are cumbersome make things more difficult which opens the door to corruption. Many people, including private housing societies, feel obligated to pay bribes to have their applications processed faster or to beg that any government or state department be excused from the standard procedure (Hussein, 2021). A sponsor has to follow 19 major steps/ permissions/NOC and a multitude of intermediate steps (29), adding to the excessive regulatory burden from the start to the completion of a housing scheme (Hassan et al., 2021). Regulation operates market opportunities if are easy to follow. However, regulatory burdens mold human behavior in the opposite direction. Regulation produces performance effects even where these display no regular pattern (Kitching et al., 2015).

Theoretical Framework

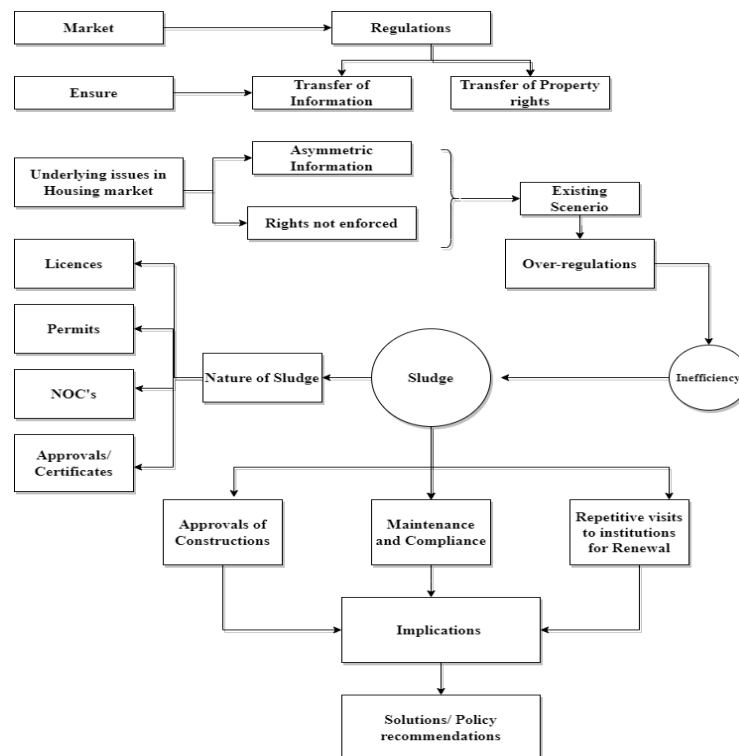
The conceptual framework for this study starts by discussing the rules governing Pakistan's housing market. Regulations are designed to ensure the proper flow of information and property rights to promote a fair and effective market. However, in the current scenario, there is asymmetric information, which means that buyers and sellers do not have equal access to information. Apart from this information gap and inefficiency, excessive regulation has

made the situation much worse. The inefficiency caused by over-regulation manifests in the form of sludge, which refers to the unnecessary friction caused by institutions when obtaining licenses, certificates, NOCs, and permits. Sludge in the housing market takes the shape of heavy paperwork, long wait times, and numerous trips to government offices to obtain approvals and permits. This can make it challenging.

Sludge in the housing market has significant implications. Delays, higher costs, and missed opportunities for economic progress might result from it. Additionally, it might result in corruption because people may use bribes and other unlawful ways to speed up the approval process. A sense of uncertainty and a lack of trust between market participants may result from the ongoing requirement for renewals and compliance checks, which may further impede the market's expansion and effectiveness.

The study aims to analyze the overall sludge and weak mechanism of information transfer to identify the various bureaucratic hurdles and obstacles that arise during the process of getting approval for a housing society. By identifying the sources of sludge, the study intends to identify ways in which the regulatory burden can be eased and the process of getting approvals can be streamlined.

Figure 1: Conceptual Framework



Discussion:

This section comprehensively examines the complex procedures and requirements involved in the registration and approval of housing societies in Islamabad. Through detailed analysis and visual aids, this section aims to

shed light on the bureaucratic intricacies and their broader implications for developers and residents alike.

First, a diagram that shows the wide range of paperwork required for a housing society in Islamabad to be registered is provided. The analysis underscores the administrative burdens and the significant time investment needed to fulfill these regulatory requirements, which can span from a few months to several years. Following this, a flowchart outlining the complete procedure for obtaining approvals is introduced. This flowchart provides a visual representation of the sequential steps involved in the approval process, from initial application to final authorization. Additionally, a table is presented to detail the various factors influencing the functioning of a housing society and the aggregate level of stress caused by each factor. Moreover, an analysis of price differences between legal, extra-legal, and illegal housing societies has also been provided. By examining data on property prices across these different legal statuses, the study illustrates the economic implications of legal recognition and the disparities in market value. This analysis sheds light on the attractiveness of extra-legal housing societies as a more affordable yet risky option for prospective buyers.

Attached below is a diagram showcasing the diverse array of documents essential for the registration of a housing society in Islamabad. The diagram is developed by following the information available in PIDE sludge Audit (Nadeem Ul Haque, 2022) and from the careful review of existing regulations.

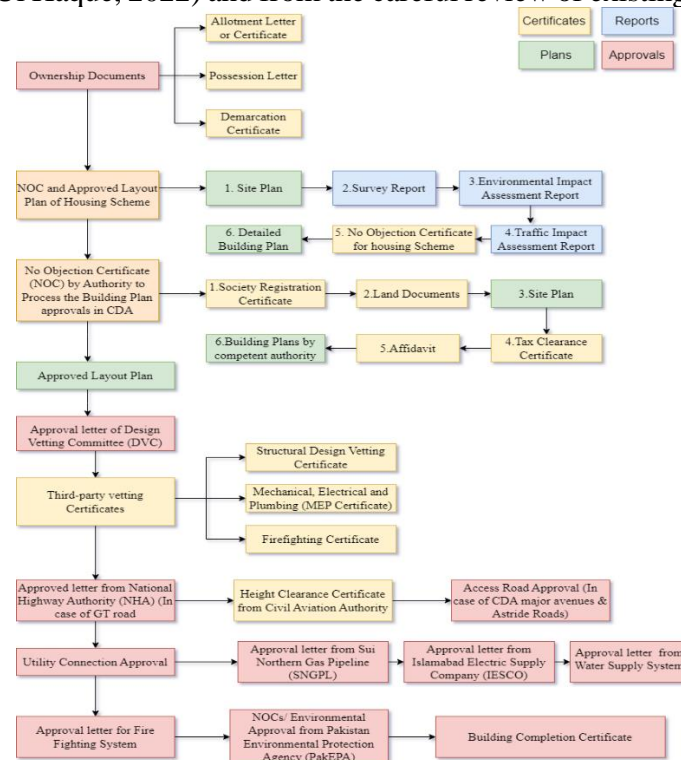


Figure 2: Flowchart of Documentation Required

The process of obtaining all the necessary approvals for a housing society in Islamabad involves several phases, as depicted in the attached diagram (please refer to the attached diagram at the end of this paragraph). It begins with the initial submission of documents in phase one and progresses through subsequent phases, including scrutiny, inspections, public notices, and compliance verification. The process is frequently characterized by a regulatory burden, in which the extensive regulations and formalities place an enormous administrative burden on applicants. The approval procedure is also made longer by the existence of sludge, which takes the shape of bureaucratic delays and complicated paperwork. Asymmetric information between the applicants and regulatory authorities can also pose challenges, requiring comprehensive documentation to ensure transparency and compliance. Additionally, the involvement of numerous regulatory bodies, each in charge of a different aspect of approval, results in a decentralized framework for decision-making in this multidimensional process. Attached below is a diagram showcasing the complete procedure of getting approvals from the relevant authorities for a housing scheme. The diagram is developed from following the information available in the study by (Hassan et al., 2021).

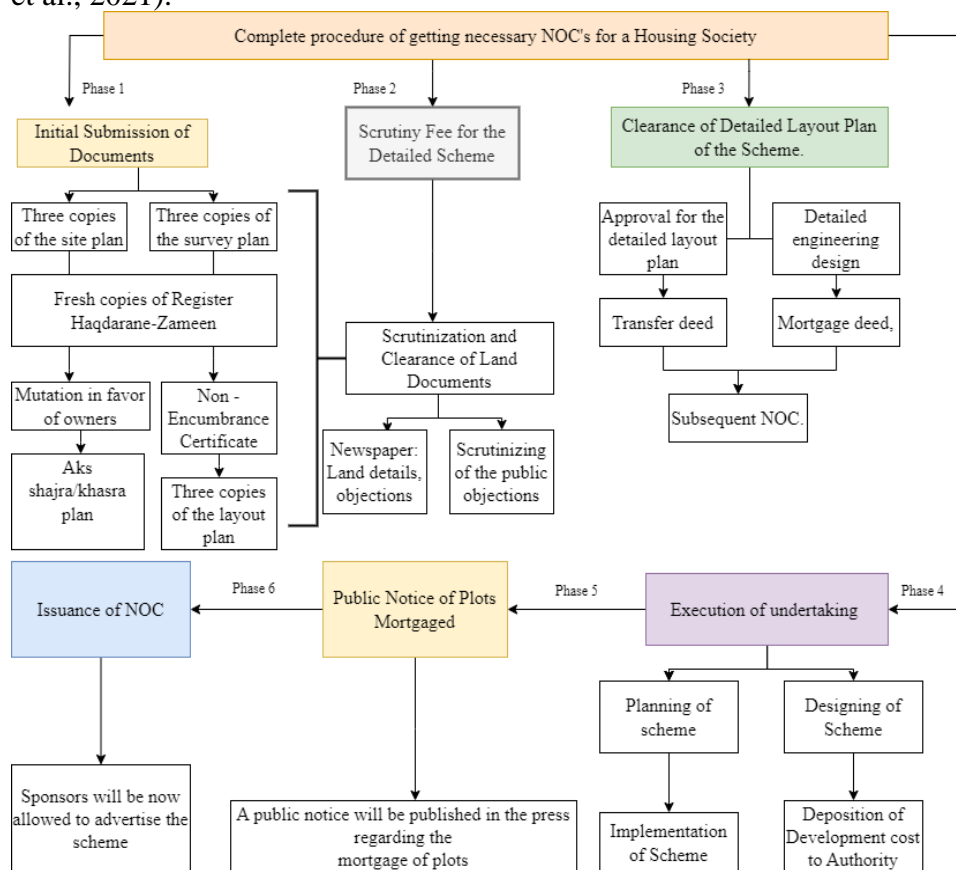


Figure 3: Flowchart of Complete Procedure of getting Approvals.

9.6. Quantifying the Regulatory Burden

Obtaining a construction permit for a housing society from the Capital Development Authority (CDA) involves a series of steps and a considerable amount of time. The CDA, as the regulatory body responsible for urban planning and development in the area, plays a crucial role in the approval process. The process starts with gathering information and submitting an application and the necessary paperwork to the CDA, followed by a thorough evaluation and review of the proposed construction plans. This evaluation includes assessments of various aspects, such as architectural design, structural integrity, environmental impact, and compliance with relevant regulations and guidelines. To confirm the validity and viability of the planned project, the CDA also carries out site visits and inspections. Given the complexity and meticulousness of the approval process, obtaining a construction permit from the CDA requires patience, adherence to regulations, and effective collaboration between the housing society and the regulatory authority.

The table below provides all the details regarding the required steps and time consumed in obtaining the permit, NOCs, and approvals for a housing society from the Capital Development Authority (CDA).

Table 2 : Mapping of complete Procedure of getting Approvals

Mapping of the process of getting required NOCs and certificates for a housing society.					
S/no	Steps	Required Documents		Time Taken	
				Overhead Time (in days)	Agency Time (in days)
1	Gather Information			1	
2	Ownership Documents	2.1	Allotment letter of Certificate	54	
		2.2	Possession letter	30	
		2.3	Demarcation Certificate		
3	Documents need to be submitted for the approval of residential and commercial building plans.	3.1	A1 form (signed by the owner), A2 form (signed and stamped by registered Architect and Structure Engineer with FGEHA)	30	45

		3.2	Attested copies of allotment letter or transfer letter and certificate, possession letter.	54	
		3.3	Original copies of Architecture drawings & Structural drawings.	30	
		3.4	Indemnity bond from owner on stamp paper.	3.5	2
		3.5	Soil investigation report for residential plot.	2	56
		3.6	Certificate of vetting consultants regarding structural stability for commercial buildings.	3	30
		3.7	NOC for basement undertaking on stamp paper from neighboring plots.		
		3.8	Scrutiny fee and other applicable fees.	3.5	
		3.9	Digitally scanned copies of Architectural and Structural drawings on CD along with scanned copies of all documents.	2	
4	Third-party vetting Certificates:	4.1	Soundness and Structural stability certificate of the structure.	3	25

		4.2	Mechanical, Electrical and Plumbing (MEP Certificate)	7	
		4.3	Firefighting Certificate	2	
5	Height Clearance Certificate from Civil Aviation Authority (if in the surrounding of Airport or to achieve maximum height).			3	280
6	Environmental Approval from Pakistan Environmental Protection Agency			15	280
7	NOC from sewerage division			10	7
8	Accounts section Clearance			10	30
9	Building Inspector			10	3
10	Building Inspector Visit				3
11	Report submission by field officer.			60	7
12	Collection of approval certificates			30	20
	Total days			356	788

However, according to a recent study of PIDE (Hassan et al., 2021) it is claimed that the:

- The average time taken by CDA for NOC approval is two and half years – from a minimum of 74 days to a maximum of 3460 days (9 and half years).
- The average time for development work after the approval of NOC is 12 years, extending 13 beyond two decades in some cases.

The table below presents various factors affecting the functioning of a housing society, showing that stress levels are generally high, with all categories scssoring above 4 out of 5. The data indicates that tasks such as prerequisites and construction of housing societies require using multiple links and paying additional fees more than five times on average. Maintenance and annual visits also involve significant stress and additional payments, but slightly fewer links are needed. The impact of sludge shows a notable negative influence, requiring multiple steps and extra payments, though slightly less than other categories.

Table 3: Factors Involved in the Functioning of a Housing Society

Factors involved in the functioning of a housing Society			
	Aggregate stress level (Out of 5)	Average no. of times Links are used to get a job done	Average no. of times paid other than notified fee
Prerequisites for Housing Societies	4.16	More than 5 times	More than 5 times
Construction Of a Housing Society	4.15	More than 5 times	More than 5 times
Maintenance of Housing Society	4.2	4.1	3.66
Annual Visits to Institutions	4.1	3.6	3.5
Impact of Sludge	4.02	3.71	3.4

Source: Field Data

Price differences between legal, extra-legal, and illegal housing societies:

One important finding in the housing market is the significant price difference between legal, extra-legal, and illegal housing societies. According to our data statistics, there exists a significant difference in the prices among housing societies based on their legal status. Legal housing societies stand only at 63 whereas the total number of illegal and extra-legal housing societies is 146 societies. Commercial and residential prices in legal societies are notably 80% more expensive compared to extra-legal and illegal counterparts. This data sheds light on a concerning trend where extra-legal and illegal housing societies are growing at an alarming rate due to government inaction. The higher frequency of these societies signals to the common man that the government is unlikely to take decisive measures, fueling their inclination to invest in these societies. The allure of windfall gains and profits serves as a driving force, enticing buyers with the prospect of acquiring properties at lower prices in the present and reaping substantial

profits in the future when these societies eventually become legalized. The table and graph below clearly depict the current price situation in housing markets.

Table 4: Current price (in rupees) situation of Housing Market

	Legal	Extra-legal	Illegal
Residential	230926.7767	43141.95808	14720.77715
Commercial	38669.99051	23326.70438	7461.511734

Residential and Commercial

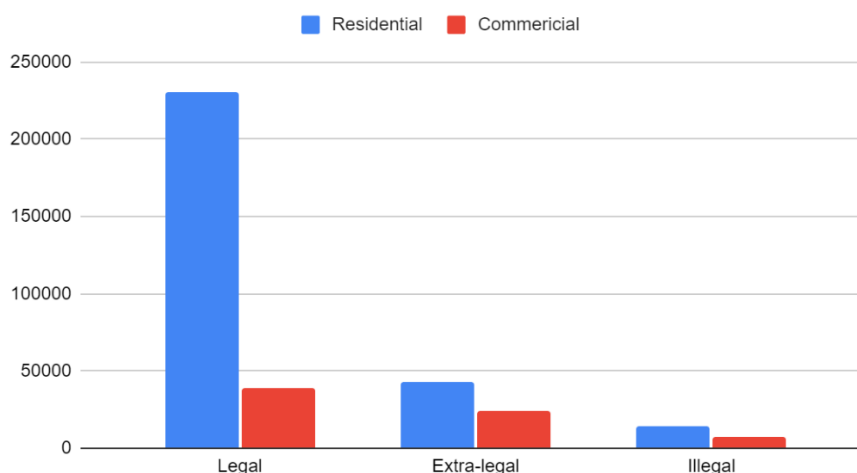


Figure 4 : Graphical Illustration of Average Per Square Feet price in Legal and Not legal Societies

The high growth of extra-legal and illegal housing societies is a clear sign of government inaction. The fact that the proliferation of these societies at an alarming pace over time suggests that the government has been unable to effectively regulate and enforce laws pertaining to housing development. Because of the absence of control, developers can operate in a situation where they can largely ignore the rules and regulations of the law.

The perception of the common people is significantly impacted by this circumstance. The prevalence of these extra-legal and illegal housing societies sends a signal that the government is unlikely to take any substantial action against them over the period of time. However, this perception of governmental inaction becomes a motivating factor for potential buyers, who see an opportunity to invest in these societies at lower prices.

The expectation of unexpected benefits and profits serves as the main motivation for investing in these societies. Buyers are enticed by the prospect of purchasing properties at lower rates in the present, with the anticipation that these societies will eventually be legalized. Upon

legalization, the prices of properties in these societies are expected to skyrocket, resulting in substantial windfall gains for those who invested early. Investment in extra-legal and illegal housing societies is significantly influenced by this possibility of windfall gains. Due to the possibility of receiving significant profits on their investments in the future, buyers are willing to overlook the legal and regulatory risks associated with these societies. This situation emphasizes the necessity for strong government regulation and action to promote honest and open procedures in the housing market, safeguarding both buyers' interests and the stability of the entire housing market.

Results and Findings:

The findings show that it takes the CDA, on average, about two and a half years to approve a NOC. However, it is important to note that the timeframe can vary significantly, as the minimum recorded duration for NOC approval stands at 74 days, while the maximum duration reaches a staggering 3460 days, equivalent to nearly nine and a half years as mentioned in the study conducted by Hassan, L., Chaudhry, A., & Jalil, H. H. (2021).

Once the NOC is obtained, housing societies face an additional period of development work before the projects can be completed. On average, this phase takes around 12 years to finalize. It is worth mentioning that some housing societies experience a significantly longer duration, extending well beyond two decades in getting all necessary approvals as briefly discussed in PIDE Sludge Audit. These extensive development timelines highlight the intricate nature of infrastructure projects and the challenges involved in transforming land into fully functional residential areas.

The gathered information demonstrates the significant time commitment needed for housing development projects, considering both the NOC approval procedure and the subsequent development work. For those involved in the conception and implementation of housing societies, these timelines are essential points of reference. Stakeholders can more effectively manage expectations, arrange resources, and navigate the regulatory processes involved in housing development by comprehending the average durations and ranges shown in the table 2.

A key conclusion involving housing society developers has been made after careful study of the obtained data and comparison with related data from other sources. These developers don't seem to be aware of the procedures and approvals needed for their projects, which suggests a lack of information. This finding supports the claim of asymmetric information in the housing society development process as mentioned in the study of Hassan, L., Chaudhry, A., & Jalil, H. H. (2021). Asymmetric information is a situation where one party to a transaction has more knowledge or information than the other party, which can affect how decisions are made. In the context of housing society development, this lack of knowledge and information on the part of developers results in delays, inefficiencies, and

non-compliance with regulations. Such information asymmetry results in increased stress levels, financial constraints, and potential confrontations with regulatory bodies, all of which can be detrimental to the development process as a whole.

Additionally, failing to comply with pertinent norms and guidelines can occur from ignorance of the approvals that are required. In addition to impeding the housing society's advancement, this non-compliance exposes the developer to fines, penalties, and other legal repercussions. Additionally, lack of information about the necessary methods might result in inefficiencies and add to the developers' financial responsibilities because they may have to fix mistakes or make costly revisions later in the development process.

Policy Proposals:

In recent years, the rise of unregulated housing societies, or extra-legal housing developments, has become a significant concern. To tackle this challenge and bring stability to the housing sector, a comprehensive approach is essential. The following recommendations aim to curb the growth of these illegal societies and ensure the provision of lawful and secure housing:

1. **No Marketing without Plotting:** Enforce strict regulations preventing the advertising of housing societies until the plotting process is completed. This ensures accountability, protects investors, and reduces the prevalence of illegal societies.
2. **Establishing a Specialized Unit for Housing Societies:** Create a dedicated unit under the Capital Development Authority (CDA) responsible for housing society issues. This unit would handle regular inspections, streamline approvals, and provide information and assistance to residents.
3. **Stick to the Plan, No Extension:** Implement a rule that restricts housing societies from acquiring additional land beyond the initially approved area. This promotes transparency, enhances monitoring, and curbs the growth of unauthorized societies.
4. **Legally Binding Vertical Housing:** Mandate a specific percentage of land cover for high-rise buildings in housing societies. This encourages controlled development, maximizes land use, and preserves green spaces.
5. **Digitalization:** Integrate digital technologies to streamline the development process, enhance transparency, and improve access to information. A digital platform can simplify permit applications, facilitate communication, and incorporate mapping and geospatial data for better planning and oversight.
6. **Single-Window System:** Develop a single-window system for acquiring approvals, consolidating interactions with multiple government agencies into a centralized system. This reduces bureaucratic hurdles, cuts down approval time and expenses, and promotes accountability.

7. Addressing Fine Culture: Implement stricter penalties for non-compliance and conduct awareness campaigns to deter developers and consumers from preferring to pay fines instead of following legal procedures. This encourages a culture of compliance and reduces the prevalence of illegal housing societies.

By adopting these recommendations, it is expected that the rapid growth of extra-legal housing societies can be curbed, ensuring a more transparent, accountable, and sustainable housing sector.

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