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An Islamic principle-based integrated solution for China's housing affordability issues

Yaxin Ma and Fauziah Md Taib
Department of the School of Management, Universiti Sains Malaysia, George Town, Malaysia, and
Nusirat Ojuolape Gold
Department of Accounting and Finance, Kwara State University, Malete, Nigeria

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Abstract

Purpose – This study aims to merge the world's proven ways of housing finance, including musharakah mutanaqisah, housing cooperatives and real estate crowdfunding, to present an alternative housing unaffordability solution based on the Islamic finance principle. It is intended to reduce the burden of funding for both sides (consumers and developers) and create win–win chances for all stakeholders, including intermediaries. By moving away from debt financing and merging the features of crowdfunding and cooperative, it is hopeful that the burden of home ownership will no longer be the case.

Design/methodology/approach – This paper presents the opinions of potential Chinese homebuyers (minority Muslims and most non-Muslims) and a few industry experts toward the proposed model via a mixed research method.

Findings – According to the findings, the majority of respondents agreed with the proposed paradigm. Just concerned that China's lack of community culture and trust could pose a major threat to implementation. However, this paper argues that Chinese local governments may perform pilot testing in places where Islamic culture is prevalent. Their unique community culture and fundamental understanding of Shariah law may affect the viability of the proposed model.

Originality/value – The proposed model would increase the applicability of Islamic finance as a way of protecting the social order of communities in the spirit of upholding justice and fairness. A new type of housing loan based on musharakah mutanaqisah may squeeze out the real estate bubble and provide stakeholders with a multidimensional investment channel. In particular, the study identifies the impact of Chinese Islamic financing on government and cultural needs. It presents possible challenges for implementing the proposed model in reality and helps bridge the gap between theory and practice.

Keywords Fiat money, Housing affordability, Debt-based, Musharakah mutanaqisah, Co-operatives, Crowdfunding

Paper type Research paper

1. Introduction

After reform and opening in 1979, the rapid development and continuing expansion of China's economy have pushed real estate into a mechanism of free market competition, which has significantly improved the living conditions of residents and increased the proportion of urban household property income to total household income (Yeh *et al.*, 2015). In addition to promoting urban functions and optimizing urban industrial structures, the growth of the real estate industry has played a crucial role in the national economy. Although people's living conditions have improved significantly, China was caught in a developmental dilemma when the paradigm of the real estate industry shifted from communism to an open economy. Housing demand and house prices have surged as

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hundreds of millions of people migrate from the countryside to the big cities. Thus, housing affordability becomes a source of hardship (among other things), creating social and economic imbalances (Song, 2022).

Many real estate developers and investors are focusing on the continual building of high-rise residential to expect huge capital gains, even though the actual demand for such development is quite low (Aveline-Dubach, 2020). In actuality, this enormous expenditure (billions of dollars) has yielded little tangible economic value, chiefly because the majority of real estate companies and investors ensure stable cash flow through massive land hoarding, construction and development, while the commercial banks offer loans to such enterprises to reduce risks and increase profits (Collyns and Senhadji, 2002; Ryan-Collins, 2018). The excessive loan expansion, financialization traits and pre-sale mechanism of the real estate business resulted in inadequate liquidity, which will most likely precipitate a debt crisis. Evergrande, the largest real estate development company in China, is battling these difficulties. It is important to note that thousands of ordinary people are adversely affected by such operations.

China's government has realized the social harm caused by increasing house prices, implemented several home price control policies to control the soaring housing prices. For instance, they introduced real estate loan restrictions, purchase limited order, speculation prevention, destocking, etc. (Xie, 2021). Yet, the effectiveness of these initiatives is limited, as suggested by numerous academics (Hui and Wang, 2014; Cao and Keivani, 2014; Yin *et al.*, 2020; Tan *et al.*, 2022). In fact, the root cause of the rise in house prices is the debt-based nature of the current monetary system. While it can be used to pay off debt, it does not increase real economic activity as speculative investment reduces its value and pushes up market prices (Mohsein *et al.*, 2019). Private banks have been creating money out of nothing through fractional-reserve banking requirements (see Werner, 2014, for a detailed discussion), which undoubtedly increases the money supply and further exacerbates the problem. As a result, buying a home has become out of reach.

Therefore, we should consider minimizing the use of debt-based instruments in housing affairs to limit the generation of excess money and fundamentally lower housing costs. In light of this circumstance, this study proposes an Islamic finance-based cooperative housing loan model based on the housing experiences of other nations. The subsequent parts discuss the effectiveness of China's home price restriction policies, followed by suggested solutions. Subsequently, the authors analyzed the applicability or feasibility of applying the proposed solution in China using a mixed research approach (qualitative and quantitative).

2. The effectiveness of China's home price restriction policies

2.1 Austerity housing loan policies

Since China's housing system shifted from employer-based public to commercial, the government has launched numerous real estate stimulus initiatives, resulting in a rapid rise in real estate investment scale, housing demand and housing prices (Chivakul *et al.*, 2015). Real estate has become the national economy's backbone, yet it is overinvested (Song, 2018). China bans land speculation by bidding land to curb the real estate boom (Du and Peiser, 2014). Simultaneously, financial institutions tried to restrict lending by raising down payments and real estate company loans (Lin, 2015). Not only that, but the government also increased personal income tax on second-hand house sales and restricted overseas institutions and individuals from buying homes (Cao and Keivani, 2014). By doing this, housing investment and land purchases slowed. However, residential real estate investment and development rose 27.65%, and residential commercial housing prices rose 64.8% from 2003 to 2007 (Minsheng Securities Research Institute, 2021). Thus, the policy of tightening

has not prevented the increasing housing prices (Li, 2014). Besides, Chen (2022) imply that this purchase limitation strategy was ineffective. Large state-owned capital businesses hold land at high prices due to the local land monopoly policy. Land and home values soar (Liu, 2019).

2.2 Purchase restriction order

Since the 2008 financial crisis, China's real estate investment has been significantly impacted, resulting in a substantial inventory backlog (Wen, 2018). Many low- and middle-income households have to pay growing housing expenses due to a lack of affordable housing (Shi, 2012). In response, the Chinese government has provided credit support, tax relief and low-rent house building to stimulate housing consumption and reduce social unrest (Cabestan *et al.*, 2012). It has to be said that the real estate market has grown rapidly and aggressively due to easing policies. Simultaneously, the government increased affordable housing building and solved urban middle and lower-class households' housing concerns (Nan, 2011). However, experts believe that speculation drives up house prices (Dreger and Zhang, 2013; Malpezzi and Wachter, 2005). And, government reform and implementation neglect disparities. Top-down housing policy excludes vulnerable people (Lee, 2020). Many scholars have criticized the purchasing limitation order's effectiveness. For instance, Wu and Li (2018) believes that the execution of this strategy is diverse in terms of regulating property prices in key cities and reducing speculative demand. Zhang *et al.* (2016) said purchase restrictions can temporarily calm the real estate market, but it is difficult to reduce property prices, particularly in high-priced neighbourhoods. Li *et al.* (2020) use Lang fang to demonstrate how regional variation undermined the house purchase limitation policy. Not only that, because the lack of housing supply has exacerbated the rise in real estate prices, there have been many false divorce cases in the society under this purchase restrictions policy (Peterson *et al.*, 2013).

2.3 Destocking and shantytown renovation

A unified housing approach led to different reactions in China as each city has varied economic levels, housing supply and demand and policy execution (Fang *et al.*, 2016). In response, China has implemented destocking based on the city demand, which has resulted in a dramatic real estate rebound (Huang, 2005). Simultaneously, the large-scale nationwide shantytown renovation (SRSs) programme from 2016 to 2019 accomplished major destocking effects via monetized placements (Liu and Chen, 2015). During the epidemic and worldwide economic slump, the government has supported real estate companies by delaying real estate transfer fees, relaxing limitations on commercial housing pre-sales and reducing pre-sale monitoring costs. Using housing subsidy talent recruitment initiatives to stabilize supply and demand housing prices (Chow and Niu, 2015). From the results, these policy interventions could not quickly eliminate the large real estate stock scale, especially given the varied economic and social conditions in different cities (Li *et al.*, 2022). Thus, the government's destocking effort was limited and drove up house prices in first-tier cities (Gao, 2016). Wang (2017) also proves that SRSs have a large impact on home prices, especially in places with growing home prices. Yu (2019) explains that the deployment of SRSs has exacerbated surging real estate prices in China's third-tier cities. Even this project policy has been subject to strict government supervision later.

3. Key components of the proposed model and its workflow

3.1 The proposed model comprised of three main components

3.1.1 Islamic home finance (musyarakah mutanaqisah). Maqasid Al-Shariah is the overarching objective of Islamic law, which is to safeguard the faith, life, intellect, lineage and wealth of humanity (Fisol *et al.*, 2019). As a good theoretical framework for Islamic principles and guidelines, it concentrates on the particulars of interest-free transactions and their function in the application of Sharia law (Soualhi, 2008). Its ideology prioritizes preserving the social order of communities and safeguarding their well-being over profit maximization (Kahf, 2006; Mergaliyev *et al.*, 2019). Therefore, Islamic finance has gained appeal as a viable alternative to conventional finance since the 1970s. Even in the backdrop of a global pandemic, S&P Worldwide projects stated that the global Islamic banking sector will expand by 10 to 12% in 2022. As an ethical framework for Islamic economy activity (banking and financial activities), Maqasid Shariah assures that all financial procedures are just, equal, transparent and devoid of corruption and fraud. It avoids speculative and damaging transactions at their source (Laldin and Furqani, 2013). It is a way of life that directs society and the economy towards fairness and prosperity (Vejzagic and Smolo, 2011).

Musharakah Mutanaqisah (diminishing partnership) (MM/DP) is the first concept studied. It promotes co-ownership (risks and returns) between financiers and homebuyers (Eam *et al.*, 2019). MM replaces interest rates with rental revenue to eliminate interest (usury) while preserving the rights of each contracting party (Zabri and Mohammed, 2018). It strikes a compromise between moral and material standards while emphasizing partnership or profit-and-loss sharing (PLS), allowing homeowners to acquire properties more quickly than conventional financing (Platonova, 2013). Figure 1 provides a hypothetical demonstration of the details.

Figure 1 illustrates that MM financing costs are significantly lower than traditional debt-based loans for properties of equal value. The reason is that MM focuses on the rental value

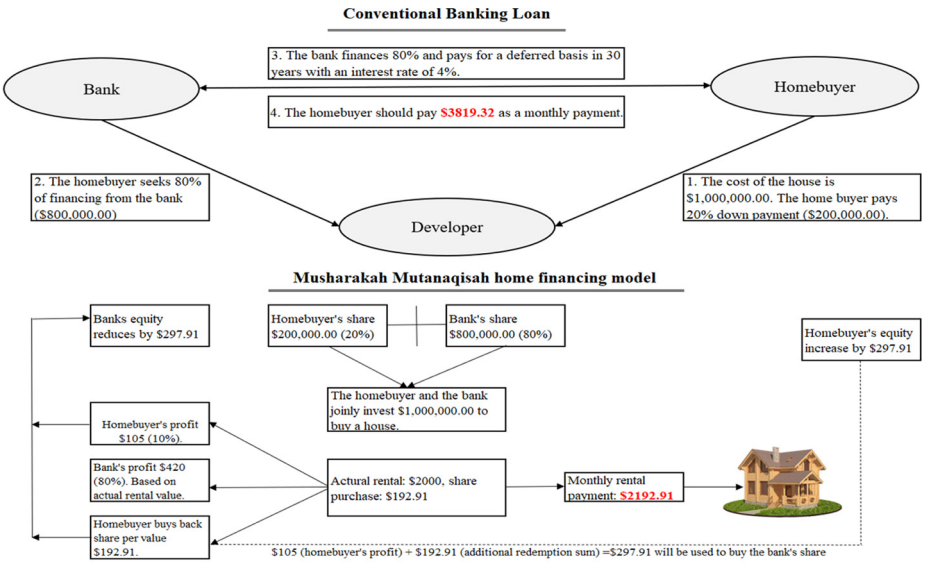


Figure 1.
MM monthly payment compared to the traditional mortgage payment

Source: A hypothetical calculation based on Bank of China website (2022) and Rosly (2005)

of the home rather than a pre-arranged interest rate or profit margin (Billah, 2019). However, financiers (banks) oppose MM because it diminishes their profits, increases risk exposure and complicates their operations. The current banking business model prohibits banks from taking on additional risks by becoming partners in home financing enterprises, even though MM is marketed as a means of safeguarding the social order of communities.

3.1.2 Housing cooperative concept (Ameen Housing Cooperative). A housing cooperative is a group of individuals with real-world needs in common, whose purpose is to help people improve their lives and safeguard their interests. The cooperative financial system helps disadvantaged households balance supply and demand with a low threshold, and it is considered an effective institutional arrangement suitable for economic development (Oluyombo, 2018). Housing cooperatives offer opportunity structures for bottom-linked citizen participation by linking and cohering social capital (Lang and Novy, 2014). This paper draws on Ameen Housing Cooperative (AHC), which fully implements the MM concept by offering a rent-to-own housing partnership (Paldi, 2020). AHC practices profit-sharing and strives for equity in income distribution and wealth building (Abdul-Rahman and Gholami, 2020). Figure 2 displays the general process of the AHC.

Ameen Housing transmitted homeownership. Funding comes from homebuyers or investors. Homebuyers begin instalment, which is equal to the house's rent payment (ameenhousing.com). Homeowners and cooperatives share risks and benefits. Homebuyers are protected. Risk-sharing gives transaction partners fairness and equity. If one partner ends the partnership, both keep their ownership percentage and split profits or losses (Dar, 2002). Unlike in the debt financing, the cooperative holds delinquent homebuyers under loan financing. Delinquent loans must also be repaid. This strategy embodies Maqasid Shariah, preventing harm and ensuring people's well-being (Suleiman, 2016).

Table 1 shows AHC's monthly payment. Members can start housing loans once they have a 20% share. At this moment, the member pays US$472 per month, and AHC pays US $1,563 until the member owns 100% housing ownership. AHC relies primarily on deposits to minimize its capital (Abdul-Rahman, 2014). As the need for housing continues to expand, AHC may confront scalability challenges. Suleiman (2016) asserts that changing the lending

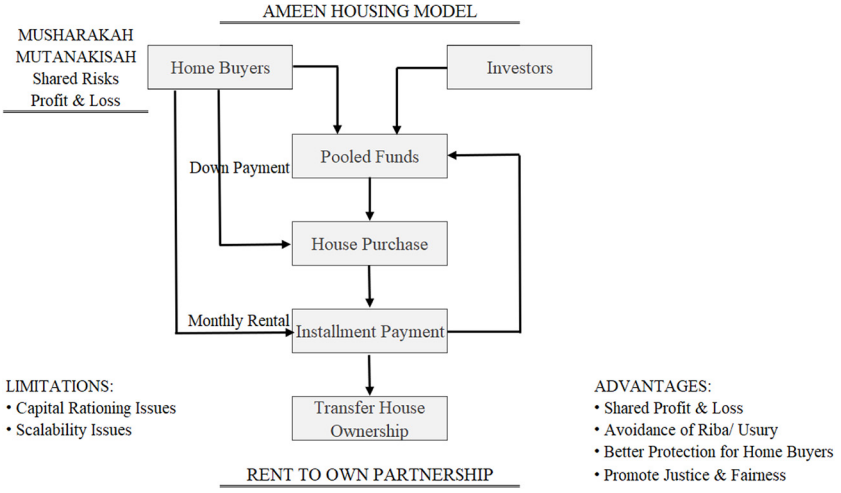


Figure 2.
Home buying process at AHC

model can fix the capital inflows issue. Therefore, AHC needs to reach more people by expanding its market share and establishing diversified strategic connections.

3.1.3 Real estate crowdfunding (EthisCrowd). Real estate crowdfunding is a convenient and cost-effective financial solution between investors and fundraisers (Xu, 2022). Homebuyers might plan residence years in advance and engage remotely in the construction and selling of their homes (Borrero-Domínguez *et al.*, 2020). Simultaneously, crowdfunding allows developers effectively target prospective purchasers and get cash flow, which is a low-cost financing route (Tiberius and Hauptmeijer, 2021).

Figure 3 above is EthisCrowd housing crowdfunding, which is a cooperative housing model in Indonesia that brings together investors, real estate developers, government and Islamic banks. This housing scheme mitigates market failures by offering government land subsidies (Sabree and Munshi, 2019; Ararawi, 2020). Although it satisfies the financing demands of all stakeholders and achieves financial and social objectives well, it is still debt-based finance. This creates rising housing financing expenses over time. Consequently, few low-income households will benefit from it.

3.2 The proposed housing loan model

The author proposes a new home loan model (Figure 4) that completely integrates Islamic finance principles. The proposed model aims to make housing accessible for middle- and low-income households. This solution aims to address the existing challenges faced by

Third-party property professional rent appraisal		US$2,000
7% rent discount #	US$140	US$1,860
Minimum monthly payment	US$1,860+US$100+US$75	US$2,035
Minimum monthly payment (member)	(US$1,860*0.2) +US$75	US$472
Minimum monthly payment (cooperative)	(US$1,860*0.8) +US$75	US$1,563

Notes: A hypothetical calculation based on the AHC website information. #Represents members' housing insurance or rent discount. *Denotes the percentage of ownership

Table 1.
The AHC monthly payment calculation

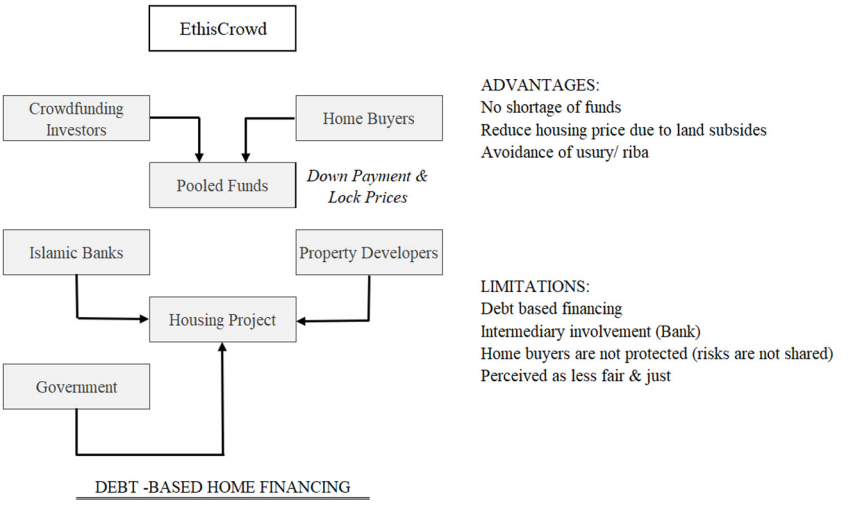


Figure 3.
EthisCrowd housing crowdfunding model

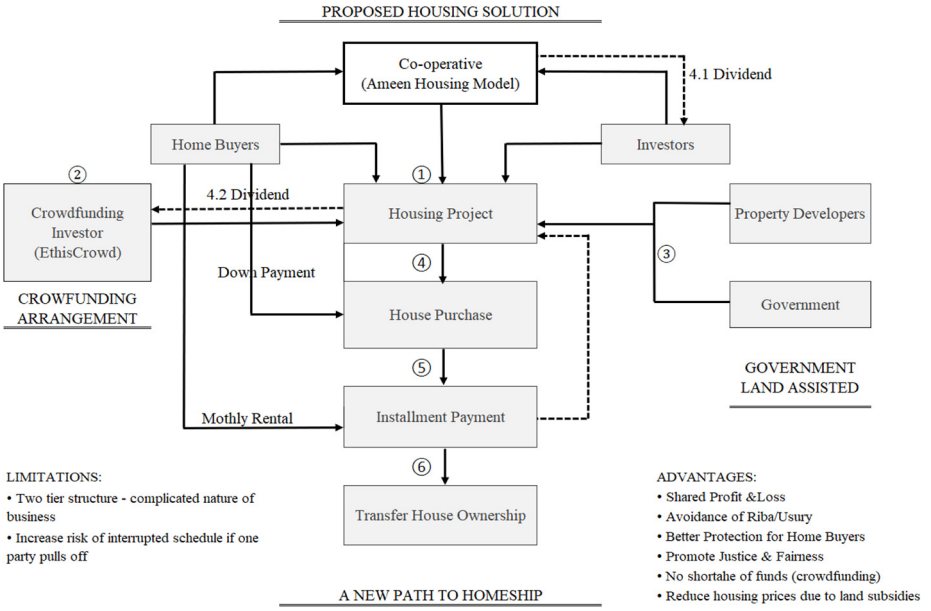


Figure 4.
Proposed housing solution for low-income households

stakeholders (homebuyers and developers) so that middle- and lower-income households have the opportunity to purchase affordable housing in a competitive market, and developers gaining effective financial support.

The following work procedure is proposed, while it may be modified based on the needs of the collaborating entities:

- *Step 1*: Members include homebuyers or investors. The AHC contract begins when they pool 10% of the housing price. The procedure encourages justice, fairness and Sharia-compliant housing loans without Riba (Suleiman, 2016).
- *Step 2*: Homebuyers or investors pool funds into EthisCrowd. This free-interest structure allows homeowners to lock in their houses in advance, plan housing purchases and avoid intermediate expenditures while ensuring a certain amount of cash flow input for developers (Borrero-Domínguez *et al.*, 2020). It uses PLS, which provides equity between the fintech firm (EthisCrowd) and its customers.
- *Step 3*: Developers initiate housing projects using cooperative, crowdsourcing or pooled equity money. This reduces the impact of delays or policies on the developer's repayment period (Ishak and Rahman, 2021). In the meantime, it acquires government land subsidies to drastically reduce housing costs, such as creating a specific land financing subsidy program for developers to reduce the financing cost for every household in the future, or to overcome the flaws of the land monopoly policy through government intervention to provide every household with a decent house and sustainable living environment (Hoek-Smit and Diamond, 2003).
- *Step 4*: After putting 20% of housing down payment, homebuyers begin monthly payments. As members, homebuyers will know where the money goes without the banks involvement (Suleiman, 2016). Ameen starts purchasing houses for all members. Investors participate in property projects after pooling funds in Ameen

and EthisCrowd. Once getting adequate upfront funding, developers can start construction. By doing so, the financial issues faced by developers will be resolved. In the meantime, government land subsidies will also cut the cost of purchasing a home (Hoek-Smit and Diamond, 2003).

- *Step 4.1*: China-based investors, be they individuals or organizations, will engage with the AHC to invest in housing projects. Investors are incentivized to enjoy halal dividends by engaging in interest-free transactions that are Sharia-compliant, which will enable them to get a decent return and policing return from the Ameen Housing platform, as opposed to risking losing money by leaving it in the bank. As capital providers, investors who fund the AHC will receive a part of the cooperative's profits and losses (Dalal and Hichem, 2021).
- *Step 4.2*: Except for Ameen Housing, investors also can invest and go through the channel of EthisCrowd, which is open to everyone. The investors and entrepreneurs share risk and profit in EthisCrowd equity financing transactions (Azganin, Kassim and Saad, 2021). Meanwhile, investors gain halal dividends by facilitation of funds on real estate projects as well as win a business and social impact (Zatadini, Marjany and Syamsuri, 2019).
- *Step 5*: At this moment, Islamic mortgages are launched officially. As members, homebuyers or investors initiate monthly instalment payments. The procedure is illustrated in Table 1. The monthly payment is based on rental yield as a benchmark to reflect the actual value of the home (Yinger *et al.*, 2016).
- *Step 6*: Gradually, the percentage between homebuyers or investors and cooperatives begins to alter. After the transfer of 100% of the homeownership to the members, the house is delivered. Investors will also proportionally distribute dividends and share profits and losses with platforms.

In the proposed model, all parties shared profit and loss, which was more equitable and fairer. By using the interest-free mechanism, homeowners can join low-cost home financing, and developers can solve the chain shortage problem. Islamic house financing schemes (MM), cooperatives and crowdfunding are integrated into the suggested paradigm. Homebuyers, investors and developers join the housing project to meet various investment needs. The proposed housing loan approach is community-based, sans commercial institutions. It prevents financial instability and potential financial crises induced by commercial banks' excessive money creation (Hossain, Latiff and Osman, 2022), making homes affordable for everyone, especially middle- and low-income households. One thing to note is that the roles of numerous stakeholders are linked with two-tier structures (cooperative and crowdfunding), which makes business more complicated. All stakeholders must limit themselves to prevent risks when executing the proposed approach.

4. Methodology

This paper uses a mixed research approach (quantitative and qualitative) to investigate the perspectives of different stakeholders (homebuyers, investors and developers) on the implementation of the proposed model. Mixed research perspectives reflect and justify the importance of descriptive research in examining human experience in management research (Remeyni *et al.*, 1998). The proposed housing solution is presented to 308 valid respondents and five industry insiders through questionnaires and interviews respectively (Appendices 1 and 2). Specifically, the author conducted a purposive sampling questionnaire based on the necessity and originality of the three fundamental concepts in the proposed

model. Postgraduate students majoring in finance are picked as the primary respondents as they are better able to comprehend new concepts because of their higher cognition, and they are the largest potential home buyers in China (BBC News, 2017). Moreover, five experts represent the four essential actors in the proposed solution, although there is no government representative (government personnel often adhere to strict rules and regulations about interview participation, especially during the pandemic). Among them are senior practitioners of Islamic finance in China, promotors of Sino-Arab economics and commerce and senior professionals in real estate project management. Considering the paucity of Chinese Islamic finance specialists, the qualifications of these five responses are deemed sufficient as offering expert opinion (Appendix 3).

5. Opinions from potential homebuyers (quantitative analysis)

From Table 2, most respondents are unmarried young people under the age of 30. Among them, there are 89.61% non-Muslims and 10.39% Muslims. And, 70.45% of respondents had no housing experience; 87.56% intend to buy a house in the future, implying that the majority are potential homeowners. This is consistent with the fact that China's millennials have a high rate of home ownership. According to the above demographic data, the author conducted a *t*-test to examine the perspective from four categories, which are Muslim/non-Muslim, housing experience/no housing experience, employed/unemployed and age <30/>30. Below is a comprehensive evaluation.

5.1 Muslim/non-Muslim

Table 3 is *t*-test result of the proposed model between Muslim and non-Muslim families, the proposed home loan model's mean value for Muslims is higher than for non-Muslims, which means Muslims recognize the proposed paradigm more than non-Muslims. The *p*-values in Q1 to Q6, Q8 and Q9 are less than 0.05. It clarifies a significant difference between Muslims and non-Muslims with regard to the proposed housing loan concept. Individuals' religious motivation, attitude and awareness have a considerable impact on the acceptability of interest-free finance concepts (Kaakeh *et al.*, 2018). The same is true of China's minority Muslim population. Especially in Q10, Muslims are more inclined to the proposed model

Items	Categories	No.	(%)	Cumulative (%)
Q1. Have you ever taken a housing loan? (current or past)	Yes	91	29.55	29.55
	No	217	70.45	70.45
Q2. If your answer to *Q1* is No, do you have a plan to buy a house in the future?	Yes	190	87.56	87.56
	No	27	12.44	12.44
Gender	Male	142	46.1	46.1
	Female	166	53.9	53.9
Marital status	Single	221	72.75	72.75
	Married	87	27.25	27.25
Job status	Employed	92	29.87	29.87
	Unemployed	216	70.13	70.13
Age	<30	244	79.22	79.22
	>30	64	20.78	20.78
Religion	Non-Muslim	276	89.61	89.61
	Muslim	32	10.39	10.39
Total		308	100	100

Table 2. Demographic information

The proposed model						
Group statistics					Levene's test for equality of variances	
Factors	Religion	*N*	Mean	SD	F	Sig.
Q1. The interest-free housing model advocated by the proposed model will be relatively advantageous to the people	Non-Muslim Muslim	276 32	2.63 2.72	0.55 0.46	2.94	0.003
Q2. Bank interest is a non-productive expense that weakens people's feelings of goodwill and affordability of houses	Non-Muslim Muslim	276 32	2.5 2.59	0.63 0.61	2.31	0.006
Q3. Homebuyers can regain corresponding homeownership after ending monthly payments, which is preferable to the model used by conventional banks	Non-Muslim Muslim	276 32	2.61 2.84	0.6 0.37	24.47	0
Q4. The PLS idea in the proposed decreasing partnership is fairer to both homebuyers and financial institutions than the current financing model	Non-Muslim Muslim	276 32	2.62 2.91	0.56 0.3	48.45	0
Q5. According to the housing concept of DP, the transfer of home ownership is simpler and more equitable than conventional financing	Non-Muslim Muslim	276 32	2.61 2.81	0.54 0.4	24.42	0
Q6. In the proposed model, the partnership between financing institutions and homebuyers is closer and fairer than the relationship between the lender and borrower in conventional banking	Non-Muslim Muslim	276 32	2.63 2.84	0.55 0.37	24.74	0
Q7. The combination of crowdfunding, cooperative and DP can effectively bring out the most significant advantages of each of the three approaches and provide affordable housing solutions for people who need to buy a home, thus achieving China's view that "housing is only for living in"	Non-Muslim Muslim	276 32	2.61 2.69	0.55 0.47	3.02	0.083
Q8. Currently, China does not have any fundamental housing cooperatives based on pure mutual aid and mutual gain that are voluntary and guaranteed	Non-Muslim Muslim	276 32	2.64 2.84	0.55 0.37	22.21	0
Q9. The proposed model provides an alternative low-threshold house finance channel for those with an inconsistent income, high debt and/or who are unable to obtain bank financing	Non-Muslim Muslim	276 32	2.66 2.88	0.55 0.34	24.95	0
Q10. I wish to use the proposed model if it becomes operative in China	Non-Muslim Muslim	276 32	2.64 2.72	0.53 0.46	2.84	0.093

Notes: *$p < 0.05$; **$p < 0.01$

Table 3.
T-test result of the proposed model (non-Muslim vs Muslim)

(mean up to 2.72). However, Q7 is about the proposed model as a whole. It is an entirely novel notion with no distinctions between Muslims and non-Muslims.

5.2 Have housing experience/no housing experience

Table 4 demonstrates that the group with housing experience has a higher mean value than the group without housing experience ($p < 0.05$). It illustrates that those with housing experience are more likely than those without housing experience to agree with the proposed model statements. Because persons with housing experience will have a greater understanding of the pros and cons of the current housing paradigm during purchasing a home and paying their mortgage. When individuals encounter a new housing loan model, they may be more attuned to its distinctions and benefits, especially given the Islamic PLS principle under the interest-free mechanism (Fitri *et al.*, 2020). Not only that, the process of transferring property ownership and the collaboration between buyers and sellers in an Islamic financial contract eliminate the current unreasonable and unfair transaction forms (Jan *et al.*, 2018).

5.3 Employed/unemployed

As for the employed/unemployed group in Table 5, the result indicates that the employed group has higher mean values than the unemployed group in ten statements. It shows that more employed respondents recognize the proposed model (p-values 0.05). There are significant differences between this group. With China's rapid urbanization growth, the real estate industry has been in high demand (Cai *et al.*, 2020). Faced with the depreciation pressure and limited investment channels resulting from the excessive fiat money creation, the majority of working people can only take housing loans from banks with savings (King, 2016). As a new investment channel, the proposed model is more appealing to employed respondents.

5.4 Age 30/older than 30

Table 6 is the t-tests of respondents over the age of 30 and respondents under the age of 30. It comes out that respondents above 30 are interested in the interest-free strategy offered by the model. The proposed model is based on the Shariah principle prohibiting interest, and it fits the majority of people's housing requirements. Hatta *et al.* (2017) emphasized that the fundamental principles of Islamic household finance used in the proposed model include a system subject to the examination of Qur'anic texts, a substantial amount of inference from the influential great man and the wisdom of the interest-free system. Formally, we see that respondents favour the proposed paradigm.

5.5 Summary of findings

The author used a t-test to investigate the viewpoints of respondents with different attributes towards the proposed model. The result indicates:

- Muslims are more receptive than non-Muslims to the proposed model. It is founded on the acceptance of the proposed model within the context of the original religious philosophy.
- Those with housing experience, who are employed and who are over the age of 30 favour the proposed model, particularly the interest-free mechanism and the partnership of justice and equity. It demonstrates that this set of respondents has more housing-related experience and sufficient maturity of consideration.

The proposed model						
	Group statistics				Levene's test for equality of variances	
Factors	Have housing experience	*N*	Mean	SD	F	Sig.
Q1. The interest-free housing model advocated by the proposed model will be relatively advantageous to the people	No	217	2.59	0.55	49.96	0
	Yes	91	2.81	0.42		
Q2. Bank interest is a non-productive expense that weakens people's feelings of goodwill and affordability of houses	No	217	2.5	0.65	10.18	0
	Yes	91	2.67	0.56		
Q3. Homebuyers can regain corresponding homeownership after ending monthly payments, which is preferable to the model used by conventional banks	No	217	2.54	0.62	65.83	0
	Yes	91	2.84	0.4		
Q4. The PLS idea in the proposed decreasing partnership is fairer to both homebuyers and financial institutions than the current financing model	No	217	2.56	0.59	100.05	0
	Yes	91	2.87	0.34		
Q5. According to the housing concept of DP, the transfer of home ownership is simpler and more equitable than conventional financing	No	217	2.55	0.55	62.33	0
	Yes	91	2.81	0.42		
Q6. In the proposed model, the partnership between financing institutions and homebuyers is closer and fairer than the relationship between the lender and borrower in conventional banking	No	217	2.59	0.56	25.31	0
	Yes	91	2.78	0.47		
Q7. The combination of crowdfunding, cooperative and DP can effectively bring out the most significant advantages of each of the three approaches and provide affordable housing solutions for people who need to buy a home, thus achieving China's view that "housing is only for living in"	No	217	2.58	0.55	8.62	0
	Yes	91	2.7	0.51		
Q8. Currently, China does not have any fundamental housing cooperatives based on pure mutual aid and mutual gain that are voluntary and guaranteed	No	217	2.6	0.57	30.53	0
	Yes	91	2.79	0.44		
Q9. The proposed model provides an alternative low-threshold house finance channel for those with an inconsistent income, high debt and/or who are unable to obtain bank financing	No	217	2.59	0.58	127.73	0
	Yes	91	2.91	0.32		
Q10. I wish to use the proposed model if it becomes operative in China	No	217	2.59	0.55	49.96	0
	Yes	91	2.81	0.42		

Notes: *$p < 0.05$; **$p < 0.01$

Table 4.
T-test result of proposed model (have housing experience/have no housing experience)

Factors	The proposed model Employed	*N*	Mean	SD	F	Sig
Q1. The interest-free housing model advocated by the proposed model will be relatively advantageous to the people	No	216	2.58	0.55	60.9	0
	Yes	92	2.83	0.41		
Q2. Bank interest is a non-productive expense that weakens people's feelings of goodwill and affordability of houses	No	216	2.49	0.64	10.18	0
	Yes	92	2.68	0.57		
Q3. Homebuyers can regain corresponding homeownership after ending monthly payments, which is preferable to the model used by conventional banks	No	216	2.54	0.62	70.29	0
	Yes	92	2.85	0.42		
Q4. The PLS idea in the proposed decreasing partnership is fairer to both homebuyers and financial institutions than the current financing model	No	216	2.57	0.56	47	0
	Yes	92	2.84	0.48		
Q5. According to the housing concept of DP, the transfer of home ownership is simpler and more equitable than conventional financing	No	216	2.53	0.55	96.66	0
	Yes	92	2.85	0.39		
Q6. In the proposed model, the partnership between financing institutions and homebuyers is closer and fairer than the relationship between the lender and borrower in conventional banking	No	216	2.59	0.56	31.91	0
	Yes	92	2.79	0.46		
Q7. The combination of crowdfunding, cooperative and DP can effectively bring out the most significant advantages of each of the three approaches and provide affordable housing solutions for people who need to buy a home, thus achieving China's view that "housing is only for living in"	No	216	2.57	0.56	18.75	0
	Yes	92	2.73	0.47		
Q8. Currently, China does not have any fundamental housing cooperatives based on pure mutual aid and mutual gain that are voluntary and guaranteed	No	216	2.6	0.57	32.12	0
	Yes	92	2.79	0.43		
Q9. The proposed model provides an alternative low-threshold house finance channel for those with an inconsistent income, high debt and/or who are unable to obtain bank financing	No	216	2.57	0.58	173.27	0
	Yes	92	2.93	0.29		
Q10. I wish to use the proposed model if it becomes operative in China	No	216	2.58	0.55	60.9	0
	Yes	92	2.83	0.41		

Notes: *$p < 0.05$; **$p < 0.01$

Table 5. *T*-test result of proposed model (employed/ unemployed)

- The majority of respondents (67.8%) have expressed interest in using the concept if it becomes available. Most of them have high expectations for the new model.

Numerous experts concur that the interest-based system only benefits a small percentage of the population and that the bulk of people is not protected in economic transactions (OKTE, 2017; Aziz, 2019; Khalidin, 2021). Islam has developed an interest-free system for an all-inclusive productive process in pursuit of economic wealth for all people. The proposed model aims to accommodate the housing requirements of all ideologically varied households to establish social harmony and cohesiveness. Therefore, regardless of respondents' religions, occupations and ages, they require more channels and safeguards for their home purchase transactions.

Factors	The proposed model Age	*N*	Mean	SD	F	Sig.
Q1. The interest-free housing model advocated by the proposed model will be relatively advantageous to the people	< 30	244	2.6	0.55	72.3	0
	> 30	64	2.86	0.35		
Q2. Bank interest is a non-productive expense that weakens people's feelings of goodwill and affordability of houses	< 30	244	2.5	0.64	19.64	0
	> 30	64	2.73	0.51		
Q3. Homebuyers can regain corresponding homeownership after ending monthly payments, which is preferable to the model used by conventional banks	< 30	244	2.58	0.61	40.06	0
	> 30	64	2.83	0.42		
Q4. The PLS idea in the proposed decreasing partnership is fairer to both homebuyers and financial institutions than the current financing model	< 30	244	2.59	0.57	67.12	0
	> 30	64	2.88	0.38		
Q5. According to the housing concept of DP, the transfer of home ownership is simpler and more equitable than conventional financing	< 30	244	2.56	0.55	109.58	0
	> 30	64	2.88	0.33		
Q6. In the proposed model, the partnership between financing institutions and homebuyers is closer and fairer than the relationship between the lender and borrower in conventional banking	< 30	244	2.59	0.56	58.77	0
	> 30	64	2.86	0.39		
Q7. The combination of crowdfunding, cooperative and DP can effectively bring out the most significant advantages of each of the three approaches and provide affordable housing solutions for people who need to buy a home, thus achieving China's view that "housing is only for living in"	< 30	244	2.57	0.56	34.29	0
	> 30	64	2.78	0.42		
Q8. Currently, China does not have any fundamental housing cooperatives based on pure mutual aid and mutual gain that are voluntary and guaranteed	< 30	244	2.61	0.57	38.86	0
	> 30	64	2.83	0.38		
Q9. The proposed model provides an alternative low-threshold house finance channel for those with an inconsistent income, high debt and/or who are unable to obtain bank financing	< 30	244	2.61	0.57	146.89	0
	> 30	64	2.95	0.21		
Q10. I wish to use the proposed model if it becomes operative in China	< 30	244	2.6	0.55	72.3	0
	> 30	64	2.86	0.35		

Notes: *$p < 0.05$; **$p < 0.01$

Table 6.
T-test result of proposed model (age <30/age >30)

6. Opinions from few experts (qualitative analysis)

For the convenience of analysis, the author represents five experts with codes. IF1 and IF2 represent Islamic finance practitioners. IV1 is an investor acquainted with Islamic finance. RE1 is a seasoned real estate management specialist. BE1 means the business expert with experience in Islamic finance-based projects and transactions.

6.1 Data analysis

Q1. What is your view about the MM concept and its operations in the proposed housing model?

From Table 7, all five respondents recognized the concept of MM, based on their international experience in Islamic banking. IV1 especially emphasizes that the homeownership transferring and the PLS principle can protect the profits of all parties. But, regarding its application, China needs more inclusiveness across cultures and diversity (BE1). Simultaneously, RE1 believes that China should strengthen the construction of the credit system, after all, what MM advocates are an ethical practice based on the welfare of all rather than the profit of a few (Baber, 2017):

Q2. The proposed housing model will require an establishment of cooperatives as well as an active rental market; do you think this is feasible in China?

The AHC is one of core themes of this study. It is the full practice of PLS in terms of wealth generation and income distribution (Abdul-Rahman and Gholami, 2020). However, in Table 8, IF1 underlines that existing Chinese cooperatives are mainly commercial in character. Moreover, the absence of community culture, trust and oversight has led to the staging of cooperative fraud instances in China, which hampers the growth of genuine cooperatives (IF2). In addition, RE1 believes that China's leasing sector has enormous growth potential, and that China must accelerate construction:

Q3. Crowdfunding is a very interesting concept included in the proposed housing model. In the past, however, Chinese consumers have had some negative experiences dealing with it. How do we implement the crowdfunding concept and be accepted well by Chinese consumers?

In Table 9, five respondents pointed out that inadequate supervision, lack of transparency, trust and altruism lead to a lot of unethical crowdfunding practices happening in China. IF1

(a)	Opinion	IF1	IF2	BE1	IV1	RE1	Total
i)	Recognized MM	√	√	√	√	√	5/5
ii)	PLS	√	√	×	×	×	2/5
iii)	Ownership transfer	√	√	×	√	×	3/5
iv)	Intercultural inclusiveness	×	×	√	×	×	1/5
v)	Credit system	×	×	×	×	√	1/5

Notes: (√) indicates that the issue was mentioned by the respondent; (×) means the issue was not mentioned

Table 7. Concept of MM

(b)	Opinion	IF1	IF2	BE1	IV1	RE1	Total
i)	Unfeasible	√	√	√	×	×	3/5
ii)	The attributes of commercial banks	√	×	×	×	×	1/5
iii)	Lack of trust and community culture	×	√	√	×	×	2/5
iv)	Lack of legal supervision	×	√	×	√	×	2/5
v)	Rooms for development in the leasing market	×	×	×	×	√	1/5

Notes: (√) indicates that the issue was mentioned by the respondent; (×) means the issue was not mentioned

Table 8. Cooperative

believes that with the enrichment of people's material life, the pure spiritual world of the past no longer exists. There is a lot of illegal fundraising in China. Therefore, learning the correct concepts and implementing concepts properly is the point to address, especially to strengthen the cultivation of professional knowledge for the younger generation (RE1).

Q4. In your opinion, what are the opportunities that the proposed housing model will bring to China's real estate industry?

Q5. What is your opinion on the adoption of the proposed model in China? Which part is relatively feasible, and which part would require further study before being implemented? Why?

Q6. Do you agree that the proposed housing model's equity sharing (MM concept) is beneficial to the sustainable development of the Chinese real estate industry?

Q4, Q5 and Q6 are the opinions on the proposed model as a whole. Table 10 shows all respondents agreed that the proposed solution is a very forward-thinking and socially significant model that will provide opportunities to advance the Chinese real estate market. IF2 underlines that the suggested model is equity-based financing, which is ideally suited for preventing real estate bubbles and speculation. This type of equity-based financing can assist the financial sector in asset consumption and eliminate the emergence of financial derivatives. However, respondents believed that China is not yet prepared to apply the

(c)	Opinion	IF1	IF2	BE1	IV1	RE1	Total
i)	Inadequate supervision	√	√	√	√	×	4/5
ii)	Non-ethical practices	√	√	×	√	×	3/5
iii)	Learn from foreign successful cases	√	×	×	×	×	1/5
iv)	National credit development lags	×	×	√	×	×	1/5
v)	Lack of trust	×	×	√	×	×	1/5
vi)	Strengthen the understanding of the concept through education	×	×	×	×	√	1/5

Table 9. Crowdfunding

Notes: (√) indicates that the issue was mentioned by the respondent; (×) means the issue was not mentioned

(d)	Opinion	IF1	IF2	BE1	IV1	RE1	Total
i)	Opportunities	√	√	√	√	√	5/5
ii)	Disadvantage	√	√	×	√	×	3/5
iii)	Concept identity	√	×	×	×	√	2/5
iv)	Faith	√	×	×	×	×	1/5
v)	Risk control	√	√	√	×	×	3/5
vi)	Policy and legal supervision	×	√	√	√	√	4/5
vii)	Equity sharing	×	√	√	×	√	3/5
viii)	Agree to attempt the model	√	√	×	√	×	3/5

Table 10. The proposed model

Notes: (√) indicates that the issue was mentioned by the respondent; (×) means the issue was not mentioned

model. Due to the fact that the proposed model, particularly the MM PLS principle, will upset established stakeholder relationships. Additionally, laws and regulations, risk management, grassroots awareness and so on are challenges to go through with this strategy.

6.2 Summary of findings

In the qualitative research section, respondents highly recognized the importance of the proposed model to advocate for the development of the concept in the international arena. The problem is that the local development of Chinese cooperatives and crowdfunding runs counter to international standards. The reason is that the significant population in China's urbanization process shift has made the original kinship, geography, clan, village and acquaintance society no longer a viable form of community (Ruan *et al.*, 2022). While, a trusted community base is fundamental to developing crowdfunding and cooperatives. In this context, respondents thought that implementing the proposed model in China now presents certain challenges.

7. Discussion

Since the reform and opening, the privatized development of China's real estate market has stimulated housing investment and led to rising land prices, house prices, rents and a high vacancy rate (up to 24.3%) (Liu and Xiong, 2018; Tan *et al.*, 2022). As an important source of finance for local governments, the bubble formed by the over-expansion of real estate business has threatened the entire financial system and residents' well-being (Ghent and Owyang, 2010). As discussed in Section 2, the government anticipates these potential crises and adopts a variety of regulatory and other measures; unfortunately, their effectiveness is limited. There are still obstacles for over-indebted individuals and developers. The rising cost of goods and services has been attributed to the fiat economy's excessive generation of credit through money multipliers (Werner, 2016; Mohsein *et al.*, 2019; Ismail, 2022). Consequently, the proposed model intends to prevent the over-inflation of fiat currency under the debt base, offer more families reasonably inexpensive or affordable housing and address the issue of developers' difficulty in raising financing.

To be sure, the solutions provided in this study were well-received by all responders, particularly the inclusion of the MM with its partnership characteristics and property transfer rights. As China's rapid economic development has diluted the centuries-old tradition of community spirit among the Chinese, leading to an increase in community-related fraud cases, it casts doubt on the feasibility of implementing the proposed solution. Therefore, the proposed solution requires changes to existing policies and legal oversight to allow for proper risk control and encourage greater transparency. Furthermore, although the three basic concepts advocated in this study offer great advantages, public understanding and acceptance of the roots of MM still face enormous challenges. Even those in the industry cannot fully understand the link between Sharia principles and business. Because some respondents believe that the new model will break the existing chain of interests and is not the demand of developers and investors.

Consequently, it is suggested that a pilot project be used to test the viability of the proposed paradigm. According to the quantitative analysis's *t*-test results, China does not lack communities founded on trust. In Muslim-majority areas, acceptance of the new model is high because of the persistence of community spirit and trust, as well as their familiarity with Islamic values. If local government support can be achieved, the proposed model will be promoted considerably. After all, as a one-party state, the Chinese government has high prestige.

8. Conclusion

High house costs affect the whole society. China's economic expansion has created a good living environment but housing problems. The rising cost of housing is due to the over-creation of credit under the fiat system, which over-inflated the fiat money under the debt base. How to avert this and solve most families' housing concerns is vital. This study suggests an alternative cooperate housing model by drawing on successful housing models around the world, including Islamic housing finance (MM), housing cooperatives (AHC) and crowdfunding (EthisCrowd). The author analyzed initial opinions of potential homebuyers and stakeholders using a mixed methodology. According to the survey, most respondents agreed with the proposed model, especially fairness and profit-sharing principles. This also confirms the model's feasibility in China. However, they worried about the proposed model's implementation in China. Bad experiences with crowdfunding and cooperative in China, plus a missing community trust are the key factors. This study advises implementing a pilot test in Muslim communities to provide inexpensive housing (based on the high response from Muslim respondents). It may boost Islamic finance's impact on the Chinese government and culture as well as give China a potential housing solution in a new conceptual reference.

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Appendix 1

A Survey of stakeholders' perceptions of proposed concepts

Thank you for taking the time to complete this survey. Many countries use diminishing partnership to develop Islamic finance. It is an asset-based housing finance concept, which is also a fair financing concept. Developers and homebuyers will achieve a balance of supply and demand through the progressive transfer of ownership. The researcher combined crowdfunding and cooperatives to achieve complementary results between the three concepts while addressing housing issues for middle and lower-income groups and developer financing challenges.

This questionnaire is intended to elicit stakeholders' opinions, needs, and acceptance. It is hoped that the researcher will use it to investigate the viability of the proposed housing model. This questionnaire will consist of two sections. Please check the box next to each question. All responses will be kept strictly private. Your thoughtful responses to all questions are critical to this research. Thank you very much for your contribution..

Thanks again

Yours sincerely,

MA YAXIN

School of Management, Universiti Sains Malaysia

E-mail: sunnyxin1220@gmail.com

Part A: Basic Housing loan information and Demographic information

Please tick your response regarding your mortgage information on the boxes.

Q1. Have you ever taken a housing loan? (current or past) Yes ☐ No ☐

Q2. If your answer to Q1 is No, do you have a plan to buy a house in the future?

Yes ☐ No ☐

Q3. Gender: M ☐ F ☐

Q4. Marital status: Single ☐ Married ☐

Q5. Age: Below 25 ☐ 25-29 ☐ 30-34 ☐ 35-44 ☐ >45 ☐

Q6. Religion: Non- Muslim ☐ Mulsim ☐

Part B: The proposed housing loan model

Please tick your response regarding the proposed model on the relevant boxes.

Scale of Measurement

1 Strongly Disagree 2 Disagree 3 Neutral 4 Agree 5 Strongly Disagree

Q1.	The interest-free housing model advocated by the proposed model will be relatively advantageous to the people.	1 2 3 4 5
Q2.	Bank interest is a non-productive expense that weakens people's feelings of goodwill and affordability of houses.	1 2 3 4 5
Q3.	Homebuyers can regain corresponding homeownership after ending monthly payments, which is preferable to the model used by conventional banks.	1 2 3 4 5
Q4.	The profit and loss sharing idea in the proposed decreasing partnership is fairer to both homebuyers and financial institutions than the current financing model.	1 2 3 4 5
Q5.	According to the housing concept of diminishing partnership, the transfer of home ownership is simpler and more equitable than conventional financing.	1 2 3 4 5
Q6.	In the proposed model, the partnership between financing institutions and homebuyers is closer and fairer than the relationship between the lender and borrower in conventional banking.	1 2 3 4 5
Q7.	The combination of crowdfunding, cooperative, and diminishing partnership can effectively bring out the most significant advantages of each of the three approaches and provide affordable housing solutions for people who need to buy a home, thus achieving China's view that "housing is only for living in".	1 2 3 4 5
Q8.	Currently, China does not have any fundamental housing cooperatives based on pure mutual aid and mutual gain that are voluntary and guaranteed.	1 2 3 4 5
Q9.	The proposed model provides an alternative low-threshold house finance channel for those with an inconsistent income, high debt, and/or who are unable to obtain bank financing.	1 2 3 4 5
Q10.	I wish to use the proposed model if it becomes operative in China.	1 2 3 4 5

Appendix 2

Interview Questions

PRESENT THE PROPOSED MODEL TO RESPONDENTS

Q1. What is your view about the Musharakah Mutanaqisah (MM) concept and its operations in the proposed housing model?

Q2. The proposed housing model will require an establishment of cooperatives as well as an active rental market; do you think this is feasible in China?

Q3. Crowdfunding is a very interesting concept included in the proposed housing model. In the past, however, Chinese consumers have had some negative experiences dealing with it. How do we implement the crowdfunding concept and be accepted well by Chinese consumers?

Q4. In your opinion, what are the opportunities that the proposed housing model will bring to China's real estate industry?

Q5. What is your opinion on the adoption of the proposed model in China? Which part is relatively feasible, and which part would require further study before being implemented? Why?

Q6. Do you agree that the proposed housing model's equity sharing (Musharakah Mutanaqisah Concept) is beneficial to the sustainable development of the Chinese real Destate industry?

Appendix 3

No.	Institutions	Position	Work experience
IF 1	HLC Foundation (www.hlc.com) HLC Technologies FZCO (www.qitmeer.io) Qitmeer (the next-generation public chain based on Block DAG) Al-Sadiq Consulting Co., Ltd Keynote speaker on blockchain, Islamic Finance	Co-founder Managing director Founder Co-founder A prominent speaker at global conferences	He has more than ten years of relevant experience in Islamic finance and Islamic blockchain fields. He is committed to combining China's One Belt One Road initiative to contribute to ethical financial investment in China and the Muslim world
IF 2	Qitmeer (the next-generation public chain based on Block DAG) Al-Sadiq Capital YMM(MAL) Sdn. Bhd	Co-founder Co-founder Director of finance	He is a passionate advocator of Islamic finance and Fintech and serves as a board member or advisor in several companies across ASEAN, China and MENA. He is a regular guest speaker in various international Islamic economy, finance and Fintech events and a regular contributor in the newspaper (Red money), news media and publications in the same field
BE1	CIFC (China Islamic Finance Club)	CEO	Since China's B&R Initiative was launched in 2013, Huang Lei founded the China Islamic Finance Club, focusing on the international cooperation and development of think tanks, trade, finance, education, halal industry and policy communication between Islamic countries and China. In 2018, she was recognized by CAMBRIDGE IF ANALYTICA as one of the TOP 50 Most Influential Women In Islamic Finance for the year 2018 and one of the TOP 20 for the year 2019
IV1	Pearl International Enterprises FZE in Jafza, Dubai, UAE CIFC Dubai Branch	Founder Co-founder	He has nearly 30 years of experience in Islamic affairs, Arab translation, Islamic financial investment and Islamic education popularization. He currently locates in Dubai. He is mainly engaged in some Shariah investments between China and the Middle East countries led by Dubai
RE 1	Beijing IDEA International Project Consulting Co. Ltd China National Chemical Engineering Company Group China Railway Construction Engineering Group China National Chemical Engineering Company Group China Railway Construction Engineering Group International Company	Founder and CEO President of CNCEC Middle East Company in Dubai Founder and CEO General manager	He dedicates himself to the career of international project and corporate management for 25 years, mainly carrying on international project management training, international projects consulting

Table A1. Profiles of five interviewees

About the authors

Yaxin Ma is a PhD holder who just graduated from the School of Management, Universiti Sains Malaysia. Her research interest is the area of accounting and finance, with core focus on the application and promotion of Islamic finance in non-Muslim countries, especially China. She is

engaged in numerous international forums in China, Dubai and Malaysia in global Islamic economic, finance and halal trade. She has a unique view on the development of Islamic finance in non-Muslim countries. Yaxin Ma is the corresponding author and can be contacted at: sunnyxin1220@gmail.com

Fauziah Md Taib is a Professor of Accounting and Finance at the School of Management in Universiti Sains Malaysia. Her core competence spans several aspect of accounting discipline, including accounting and finance, financial reporting, corporate governance, Islamic finance, stock market-based research and international accounting. She was an Associate Researcher for Institute of Chartered Accountants in England and Wales (ICAEW), International Centre of Research in Accounting (ICRA). Currently, she is an Associate Research Fellow of National Higher Education Research Institute (IPPTN) and sits on the advisory board of Socio-Economic and Environmental Research Institute (SERI), a state-government think-tank in Malaysia. She is also a member of the Asian Academy of Management, Malaysian Accounting Association and Malaysian Finance Association. She has received several awards.

Nusirat Ojuolape Gold is currently a Lecturer II at the department of Accounting and Finance, Kwara State university, Malete, Nigeria. She is a PhD candidate in the Accounting unit of the School of Management, Universiti Sains Malaysia, and recently completed her dissertation. Her research competence is in sustainability accounting and corporate reporting. She is a member of the Institute of Chartered Accountants of Nigeria and has published several articles in notable research outlets internationally.

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