Emerald International Journal of Islamic and Middle Eastern Finance and Management

INCLUSIVE ISLAMIC FINANCIAL PLANNING: A CONCEPTUAL FRAMEWORK

Journal:	*International Journal of Islamic and Middle Eastern Finance and Management*
Manuscript ID	IMEFM-01-2015-0006.R3
Manuscript Type:	Research Paper
Keywords:	Financial planning, Hierarchy of needs, Financial inclusion, Zakat, Waqf

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STRUCTURED ABSTRACT:

- Purpose: To develop a conceptual framework of inclusive Islamic Financial Planning (IFP) by combining the traditional Islamic institutions of *zakat* and *awqaf* with contemporary notions of financial inclusion and financial literacy that caters to the short-term and long-term financial goals of the poor.

- Design/methodology/approach: Being a conceptual article, an inclusive Islamic Financial Planning framework is developed by integrating modern notions of financial inclusion, financial planning and financial literacy with the concepts of *zakat* and *awqaf*.

- Findings: Using the notion of a hierarchy of needs and a financial planning model, an inclusive IFP framework that can be used by the poor is outlined. The complementary role of the non-poor households who provide funds for *zakat* and *awqaf* is also identified.

- Research implications/limitations: The applicability of an inclusive IFP would require Islamic financial instruments and products, institutional development and existence of a social planner who can integrate *zakat*, *awqaf* and financial planning to serve the financial needs of the poor.

- Social implications: Application of an inclusive IFP that can mitigate poverty would necessitate integrating financial planning skills and knowledge with traditional institutions of *zakat* and *awqaf* to provide holistic financial advice and services to the poor households.

- Originality/value: Discussion of financial planning in financial inclusion literature is scant. The paper offers a novel approach of poverty mitigation by utilizing the full spectrum of Islamic financial planning that considers the financial needs and allows for the creation of a personalized financial plan for low-income households.

Keywords: Financial planning, hierarchy of financial needs, financial inclusion, *zakat*, *awqaf*.

1. INTRODUCTION

Financial planning is becoming increasingly important in a world where overall income levels are rising, longevity of people is increasing and the financial sector becoming more complicated. While prior to the 1970s, much of the activities related to financial planning were relatively simple, catering exclusively to the wealthy, the 1970s witnessed a growth in the demand for financial planning as the middle-income class benefited from a higher standard of living. With higher income levels and surpluses, they sought financial assistance to manage their financial health, especially as financial products and services became increasingly complex (Altfest 2004, 2007). The activities of financial planners continue to evolve in line with the innovations in the financial sector and changing demand of customers. Economic uncertainties such as high inflation and changes in tax laws increase the demand for financial planning on the one hand and also made financial planners' activities more challenging on the other hand (Mittra, Potts, and LaBrecque 2005).

While conventional financial planning had developed significantly for middle-income households during the 1970s, the Islamic financial industry at that period was only beginning to develop. Islamic finance was initiated to provide *Shari'ah* compliant financial services to Muslims who preferred not to deal with conventional finance due to religious convictions. While the growth of the industry has been impressive since its inception in the 1970s, the practice on Islamic financial planning is relatively new and literature on it scant. To come up with a framework of financial planning from an Islamic perspective would require not only having appropriate *Shari'ah* compliant products and services, but also an understanding of the broader Islamic values and principles governing economic transactions in general. Unique features arising from the Islamic worldview would change the goals and nature of financial planning at different levels.

Given the social orientation of an Islamic economic system at the macro-level, financial planning is expected to cover all segments of the population. In other words, an inclusive Islamic financial planning would address the needs of both the non-poor and poor households. Given the benefits of financial planning, this paper contends the need to broaden the concept of financial planning and develop it further to include all sections of the population. Given social orientation, there is a need and case to enhance financial planning, notably Islamic financial planning, to not only cover the high-income and middle-income class but further to serve low-income households and those in poverty.

While the principles of conventional financial planning used for relatively well-off households can be incorporated in Islamic financial planning (IFP), the challenge is to ascertain how an inclusive approach can be developed to cater to the needs of low-income households and the poor. Without sufficient income or wealth, these households would find planning their finances a daunting prospect, at the very least. Given the above, the aim of this paper is to outline a conceptual framework for inclusive IFP highlighting the key issues arising in dealing with the personal financial needs of all segments of the population in general and the poor in particular. An inclusive IFP framework is developed by integrating concepts from conventional financial planning with charitable Islamic institutions of *zakat* and *waqf* (plural *awqaf*). Specifically, the paper uses the financial planning model outlined by Chieffe and Rakes (1999) and Maslow's theory of hierarchy of needs to identify and rank the components of financial services that can be used by different income groups. It then incorporates *zakat* and *awqaf* to come up with an inclusive IFP framework for both non-poor and poor households. In doing so, the paper identifies the role of social financial planners to cater to the needs of the latter.

This paper is organized as follows: Section 2 describes the development and benefits of financial planning. While Section 3 highlights concepts and principles of Islamic finance, Section 4 presents the framework of an inclusive IFP. Section 5 describes some implications and constraints that inclusive IFP may face and the last section concludes the paper.

2. FINANCIAL PLANNING

The Certified Financial Planner Board of Standards (n.d., p. 2) defines 'Personal Financial Planning' or 'Financial Planning' as the "process of determining whether and how an individual can meet life goals through the proper management of financial resources". This process involves creating a financial plan that aims to achieve the individual's goal from one's present circumstances to the desired, future goal (Harrison 2005). Chieffe and Rakes (1999) provide a framework of financial planning by examining two dimensions. The first dimension relates to time which is identified as the present and the future. The second dimension involves predictability of financial events and is classified as planned and unplanned. This categorization depends on whether an event that has financial implications can be foreseen and, as such, planned for in advance. Taking Chieffe and Rakes (1999) classifications, the key elements of financial planning can be categorized into four main types as shown in Table 1. Features of each of these components of financial planning are briefly discussed below.

[Table 1: The Financial Planning Model]

Money Management

Money management decisions relate to expected events in the current period and essentially involve managing cash flows and credit usage, to ensure that one lives within one's means. It is only through managing these cash flows effectively that individuals be deemed successful in attaining their specific financial objectives (Chieffe and Rakes 1999; Mittra et al. 2005).

Operationally, the common approach used to manage cash effectively is budgeting, which involves the process of estimating, documenting and monitoring expected income, savings and expenses (Mittra et al. 2005). The empirical benefits of budgeting is highlighted by Livingstone and Lunt (1992), Ameriks et al. (2003) and Xiao, Sorhaindo, and Garman (2006).

Emergency Planning

The two main tools used in dealing with unexpected events is to create an emergency fund and take up insurance policies. The former ensures cash intended for daily expenditures do not get diverted for unforeseen problems, with the common practice of utilizing rules of thumbs such as having enough funds to cover 3 to 6 months of household expenses (Altfest 2007; Hallman and Rosenbloom 2003). Undertaking the relevant insurance policy on a valued asset acts as a cost-effective buffer or as a contingency approach after taking into account the actual insurance deductibles as well as uncovered health and property exposures (Hallman and Rosenbloom 2003). Another option to deal with unplanned events is to secure funds through credit. However, use of credit as part of emergency planning is not encouraged by practitioners.

Investing for Goals

Investing for goals refers to financial planning for expected events in the intermediate or long run periods. These include investing in various real and financial assets, which may include a down payment on a house, investing for children's education and retirement planning. Realization of the importance of long-term goals such as retirement is evident in surveys undertaken by the Certified Financial Planner Board of Standards. When asked on the motivation to hire a financial professional and the rationale for beginning to plan their finances, respondents rank retirement planning or a desire to build a retirement fund as the main reason (Certified Financial Planner Board of Standards 2004, 2009).

Transference/Estate Planning

Transference or estate planning is the process of developing a tax-efficient plan to administer and distribute assets after death in a manner consistent with the wishes of the individual (Gitman et. al 2011). The process requires knowledge and use of the tax structures, wills and trusts. Further, estate planning can also be linked to life insurance and retirement planning. Gitman *et. al.* (2011) distinguishes between people planning and asset planning under the realm of transference planning; while the former relates to identifying and assigning the beneficiaries of the estate, the latter deals with the appropriate ways in which the estate can be managed to derive its maximum value.

2.1 Financial Inclusion, Hierarchy of Needs and Financial Planning

Financial exclusion refers to "a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong" (European Commission 2008, p. 9). A large segment of the poor population are excluded from the formal financial services involuntarily due to, *inter alia*, low income, high risk, price, information framework, etc. (World Bank 2008). Given the benefits of enhancing financial inclusion, it is considered as an important to of mitigating poverty and ensuring shared prosperity.[1]

One challenge of including low-income households into the process of financial planning relates to affordability or price exclusion[2]. As indicated earlier, high-income and middle-income households who undertake financial planning are more likely to accumulate further wealth and benefit from financial planning, compared to low-income households who possess little wealth from the onset. Low-income households cannot benefit from financial planning services as they are considered uneconomic to serve or they are not able to pay for their services. Kempson and Collard (2005) identified this gap in analyzing the provision of financial advice to low income groups for services such as pensions or retirement planning. On the supply side, the service providers will not have incentives to serve the poor as they will be able to earn little from advising them. On the demand side, fewer people with low income would be expected to avail financial planning advice and services as these are fee-based and could be expensive for them. They conclude that there may be a need for other alternative means to provide advice or planning services to the low income group and the poor.

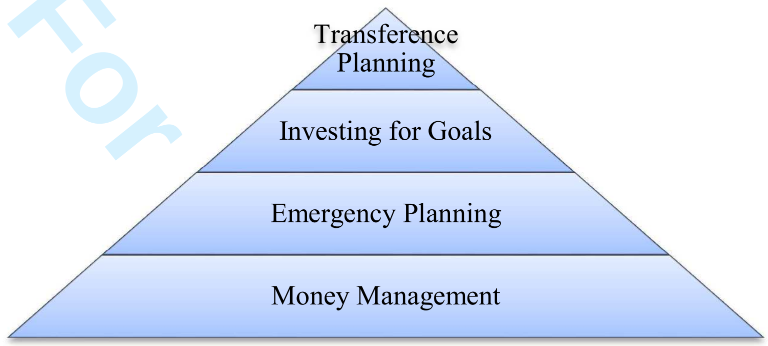
Understanding inclusive financial planning would require examining the appropriateness of financial needs for different income groups. Using the notion of Maslow's hierarchy of

[1] Shared prosperity refers to the World Bank initiative to measure progress based on the income growth of the 40 percent of the nation's population (World Bank 2013). Financial inclusion facilitates shared prosperity, through the provision of bank facilities, such as credit for productive use, which may broaden income for low-income households and the poor.

[2] Price exclusion refers to being excluded due to affordability of financial products such as high costs of credit for low-income households, or high insurance premiums of home contents' insurance, notably for those living in crime-ridden neighbourhoods (Financial Services Authority 2000; Kempson and Whyley 1999).

needs, Xiao and Noring (1994), and Xiao and Anderson (1997) maintain that the financial needs of individuals are hierarchical in nature.[3] After identifying a hierarchy of financial services, they argue that once the lower-level financial needs are met, individuals then strive for higher-level financial needs. The hierarchy of needs can be integrated with the specifications of Chieffe and Rakes (1999)'s model identified above to provide a framework to understand the financial planning services relevant for different income-groups of the population. This is shown in Figure 1 below.

Figure 1: A Hierarchical Form of Financial Planning



The framework of hierarchical form of financial planning maintains that the lowest level of the financial needs must be satisfied first before higher levels are considered. For example, current financial needs are deemed as lower-level needs and would have priority over future financial needs which are considered higher-level needs. Specifically, at the first stage, money management that includes budgeting income against expenses, debt and savings to ensure household/daily needs would be met. If there is surplus cash at the end of the budgeting process, these can be channeled to other savings such as an emergency fund (Emergency Planning) or a retirement fund (Investing for Goals). However, if a household has a deficit, it is less likely that such emergency or a long-term fund would be required or sustained.

3. ISLAMIC FINANCE: CONCEPTS AND PRINCIPLES

All human activities in Islam, including economic, should be directed towards attaining *falah* (Siddiqi 1968), which generally refers to attaining success in this world and the hereafter.

[3] Maslow (1954) argued that individuals are motivated by a hierarchy of needs identified as physiological, safety, belonging and love, esteem and self-actualization. His theory asserts that needs at the bottom of the hierarchy must be satisfied first before other needs take priority.

While the worldly goal is to attain 'a good life' (*hayatan tayyibah*), the aim of the hereafter is to enter the paradise (Accountants Today 2008)[4]. Thus, an important element in the study of the economic behavior of Muslim individuals and polity is that their choices and actions are guided by a two-world view, instead of the only one they live in. At the micro level, the objective function qualifies the traditional material dimensions (maximization of utility and profit) by *Shariah* with implications of reward and punishment in the life in the Hereafter (Chapra 1992 and Zaman 1991). Consequently, Muslim's belief of a long (infinite) life in the Hereafter induces individuals to undertake financial decisions that would be different from those arrived at in the traditional economic sense.

3.1. Islamic Commercial Law: Property Rights, Zakat and Awqaf

The overall aim of Islamic law is to promote welfare or benefit (*maslahah*, pl. *masalih*) of mankind and prevent harm (*mafsadah*). According to Shatibi, *maslahah* is achieved by promoting the essentials (*dururiyyat*), the complementary requirements (*hajiyyat*) and the beautifications or embellishments (*tahsiniyat*) (Hallaq 2004). Essentials entail the basic elements of good life and protecting them constitutes the goals of *Shari'ah* (*maqasid al Shari'ah*). Al-Ghazali identifies the *maqasid* as safeguarding the faith, self, intellect, posterity, and wealth (Chapra 2008). The objective of Islamic commercial law would be to protect and enhance one or several of the *maqasid*. Contractual and commercial transactions are sanctified and encouraged as these preserve, enhance and support property and progeny (Hallaq 2004).

One of the ways in which property is protected under Islamic law is by defining its nature and accompanying rights. In Islam, property rights are deemed sacred and gainful exchange by mutual consent is encouraged. Kahf (1998) also identifies some rules related to acquiring and using one's property. Private property is rightfully attained by lawful work, growth of an already owned property, exchange through contractual relationships, tort liability and inheritance. There should be balance in the use, waste must be avoided, property should be used without harming others, inheritance laws as prescribed by *Shari'ah* must be followed and exchanges of property must conform to the principles of *Shari'ah*. Furthermore, ownership of properties beyond a threshold level obligates payment of alms (*zakat*).

[4] A good life (*hayatan tayyibah*) is referred to in the *Qur'an* (16:97) "Whoever does righteous deeds, whether man or woman, and is a believer, We shall most certainly give a good life. And We shall indeed reward these according to the best that they ever did."

Zakat, the third pillar of Islam, has been used to mitigate poverty from the days of Prophet Muhammad (pbuh), as ordained by God[5]. One of the main objectives of *zakat* relates to poverty alleviation, as five out of the eight beneficiaries face some form of poverty: the poor, the needy, the slaves, the debtors and the wayfarer (Sadeq 1997). In addition to *zakat*, Muslims are encouraged to establish *waqf* (pl. *awqaf*) or religious endowments. Kahf (1995) states that after mosques and education, the third group of beneficiaries that generally receives revenues from *awqaf* include the poor, needy and orphans, which highlights the importance of *awqaf* on poverty alleviation.

The concepts *zakat* and *awqaf* can play a critical role in the inclusive IFP framework. In Islam, wealth is seen as primarily owned by God which is entrusted to individuals who play their role as vicegerents (Chapra 1979). Herein, part of the bestowed wealth belongs to others, such as the poor and needy, to the extent that distributing alms, such as paying *zakat,* by the rich to the poor is not a 'favour' done by the rich, but more correctly, it is a 'right' of the poor towards that wealth (Rahman 2003). With regards to this 'right', the *Qur'an* (70: 24-25) reads: '[In their] wealth there is a known share for the beggars and the destitute.'

Another basic principle that is used to develop an inclusive IFP approach is that the basic norm for commercial transactions is permissibility which signifies that all acts/contracts are permissible unless there is a clear injunction of prohibition (Kamali 2000). The two broad categories of prohibitions related to economic transactions recognized in *Shari'ah* are *riba* and *gharar.* At the contract level, these prohibitions are intended to bring about fairness and good measure and, as such, these get more consideration over complete freedom of contracts (Saleh 1992). Thus, techniques used in conventional financial planning can be incorporated in Islamic financial planning as long as the prohibitions are excluded.

3.1. Islamic Commercial Law and Islamic Financial Planning

Islamic financial planning (IFP) practice can play a role in the fulfillment of the overall *maslahah* in general and contribute specifically to promoting *maqasid al Shari'ah* in terms of enhancing well-being of individuals with respect to preserving faith, self, posterity and

[5] *Qur'an* (60: 9) states "The alms are only for the poor and the needy, and those who collect them, and those whose hearts are to be reconciled, and to free the captives and the debtors, and for the cause of Allah, and (for) the wayfarer; a duty imposed by Allah. Allah is Knower, Wise."

wealth. Other than affecting the creation and maintenance of wealth directly through sound financial planning, it can indirectly preserve faith (*din*) and self (*nafs*) by assisting individuals to minimize financial difficulties and in some cases to move away from poverty. This is especially important as the Prophet (pbuh) stated that, '…[p]overty is almost like disbelief in God'.[6]

Note that the over-riding impetus for Islamic financial planners with regards to wealth (*mal*) to adhere to *Shari'ah* will assist individuals to avoid financial transactions that have elements of *riba*, *gharar* and the like, and consequently avoid the harm that these elements bring to one's wealth and the society. On posterity (*nasl*), financial planning can assist to preserve the welfare of one's children by assisting parents to invest in their future goals, notably that of education, such as through the creation of education savings or trust funds. Another aspect of posterity that requires attention, according to Chapra (2008), is the debt-servicing burden of the present generation who choose to live beyond their means, and at which the burden would fall upon the future generation. In this instance, prudent money management and instilling financial discipline through financial planning can mitigate such negative financial circumstances.

Islamic financial planning is a holistic process that attempts to realize the personal goals of individuals, through the acquisition, preservation and distribution of wealth, in adherence with Islamic principles and values (Bank Sarasin 2011). With the growth of the Islamic financial sector, Islamic financial planning also continues to develop with the establishment of private banking facilities and wealth management units in Islamic financial institutions (IFIs), to primarily cater high net-worth individuals and middle income households. Shafii (2007) examines how personal financial planning relates with the development of IFIs in Malaysia, primarily Islamic banks, *takaful* companies and fund management companies, and highlights that it is only recently that Muslims in Malaysia are able to draft their financial plan in line with *Shari'ah*. However, there is a lack of comprehensive financial planning services offered, notably for insurance and *takaful* companies (Shafii 2007). Aside from enhancing the development of a comprehensive Islamic financial planning service that would be inclusive catering to the needs of low-income households as well.

[6] Cited by al-Suyuti (d. 911/1505) in his *al-Jami al-Saghir* from Anas ibn Malik on the authority of Abu Nu'aym's *al-Hilyah*. See Chapra (2008).

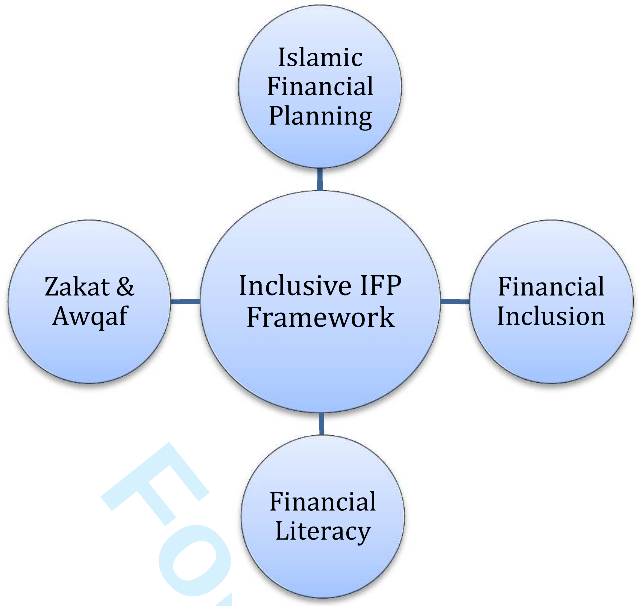
4. INCLUSIVE ISLAMIC FINANCIAL PLANNING: A FRAMEWORK

In outlining the main goals of an Islamic financial system, Chapra (1985) stresses socio-economic justice and equitable distribution of income and wealth as one of the fundamental goals of such a system. Enhancing IFP as an inclusive approach, alongside *zakat* and *awqaf*, can potentially play a significant role in Muslim societies, mitigating the gap between the rich and the poor. To understand the differences between Islamic financial planning (IFP) and conventional financial planning (CFP), it is important to firstly explore the objectives of IFP. A definition of IFP would be similar to the one presented in the introduction with the addition of the goals and processes adhering to Islamic values and principles such as the goal of *falah* and the prohibition of *riba* and *gharar*.

Taking the concept of *falah* described earlier towards attaining a 'good life' both in this world and hereafter, it should be clear that the realm of IFP differs from CFP, as the latter does not extend the time horizon to life after death. This implies that the ideal Islamic financial planner goes beyond providing services relating to worldly activities and events such as retirement planning and emergency planning and extends it to activities and events that provide benefits towards achieving *falah*, such as *zakat* planning and raising awareness towards the benefit of creating *awqaf*. In this context, it should be clear that IFP is value-laden and provides Muslims with the methodology that provides a proper balance between the fulfillment of spiritual and worldly obligations (Bank Sarasin 2011).

Therefore, a possible definition which incorporates the distinctive objective of IFP, may describe financial planning in an Islamic context as 'the process of managing income and wealth, through the creation, implementation and monitoring of personal financial activities, in compliance with *Shari'ah* and towards attaining *falah*, success in this world and the hereafter'. Financial planning for the poor is a novel concept, evident from the scarce literature on financial planning related to low-income households and those in poverty. Therefore, in ascertaining the framework for Islamic financial planning to become inclusive, it is essential to integrate several concepts. The concepts that are considered important to establish an inclusive IFP framework are depicted in Figure 2.

Figure 2: Concepts within an Inclusive Islamic Financial Planning Framework



Islamic financial planning is a relatively new concept within Islamic finance. Other than *zakat* and *awqaf*, the other three concepts shown in Figure 2 are contemporary in nature. A current and pertinent notion in alleviating poverty is financial inclusion, which involves mitigating issues surrounding financial exclusion, both on the demand and supply side.

4.1 An Inclusive Islamic Financial Planning Framework

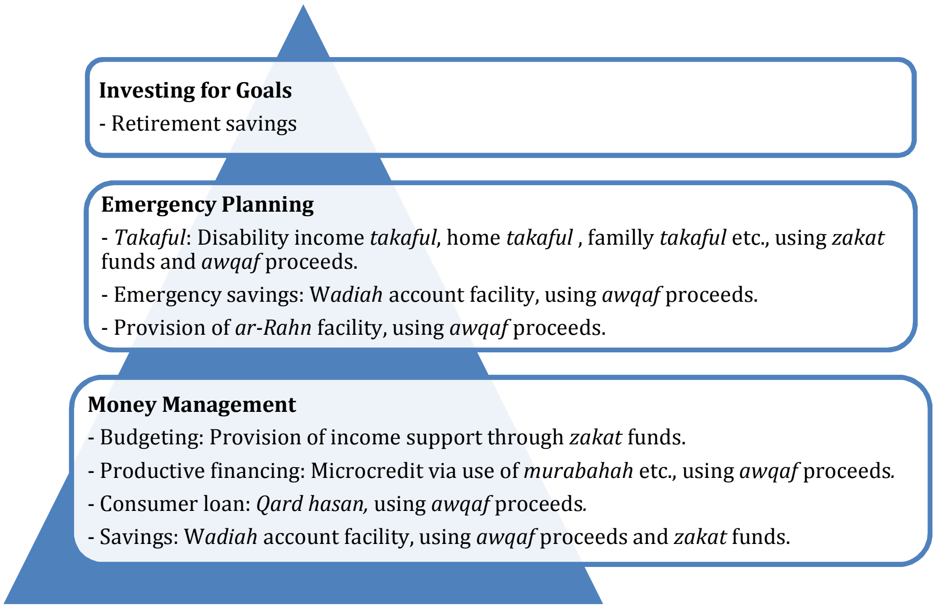
The approaches within the financial planning framework differ for net-surplus (high income and middle income) and net-deficit (low income and poor) households, due to the differing characteristics and financial needs. To accommodate the financial needs people in all income groups, the inclusive IFP framework will have different approaches for net-deficit and net-surplus households respectively as summarized in Table 2.

[Table 2: Financial Needs of Net-Deficit and Net-Surplus Households in an Inclusive Framework]

4.2 Net-Deficit Households

Figure 3 below is a refinement of the inclusive IPF hierarchy introduced in Section 2.

Figure 3: Islamic Financial Planning for Net-Deficit Households



The hierarchy of needs theory presented above implies that needs at the lower levels must be fulfilled first before higher levels of financial planning needs are fully considered. The specific issues arising in at different levels for a poor household are discussed below.

Money management

(a) Budgeting

In the context of money management, the overriding goal is to stabilize the financial situation of net-deficit households, and it is prudent at the onset to understand where the net-deficit households stand, from a cash flow perspective. Through budgeting or the creation of an Income Statement[7], a social financial planner may assess the overall cash flow of a net-deficit household, and assist in determining the amount needed for cash inflow, to at least break even with cash outflow. Any shortfall could be met at least initially through income support, which would ideally be attained from *zakat* funds. The provision of income support, though for a temporary period of time, should not be ignored or undertaken lightly. Ahmed (2004) points out that providing income support will avoid situations where financial capital or other productive assets are depleted as these are diverted for personal use.

At this stage, it is pivotal that other initiatives such as training, job apprenticeships, financial capital, trade tools and other approaches that can enhance the productivity and earnings of

[7] The items in the Income Statement should only involve basic needs, whereby the term ‘basic needs’ relates to the definition offered by Siddiqi (1996), which includes food, shelter/housing, clothing, aid for trade tools, electricity, education for the illiterate, medical care, transport and relevant survival needs of the blind.

poorer households are implemented, to work alongside the IFP approach, to ensure that net-deficit households are able to gradually meet their financial shortfall, and subsequently, become less dependent on income support. The importance of these initiatives to increase earnings cannot be overstated in the context of financial planning.

(b) Financing Deficits

To mitigate credit exclusion faced by poorer households, the necessary financing facilities should be provided to satisfy their productive and consumption needs. Other than financing provided by Islamic microfinance institutions, loans and financing for productive ventures of micro-entrepreneurs can also be provided by *awqaf* funds. The *waqf* based microfinancing can use various Islamic modes of financing such as *murabahah*, *ijarah*, etc. and also adopt approaches such as group-based lending to mitigate credit risks (Ahmed 2002 and 2013).[8]

Net-deficit households who face difficulties to meet their financial needs, such as the purchase of daily goods and meeting their children's education costs, could be provided with *qard hasan* facilities. Such a facility could be provided using *awqaf* proceeds, notably in cases where emergency funds are insufficient or do not exist. Emergency situations, such as repairs to houses due to natural disasters, should also be considered on a case-to-case basis. In both cases of financing, be it for production or consumption purposes, it is important to consider alternatives to mitigate credit risks as the requirement of collateral or guarantors, considered as a condition/feature of financing contributes towards financial exclusion. Here, assessing the best practices of microfinance institutions should be undertaken in order to consider feasible approaches.

(c) Savings

Within an inclusive financial planning framework, the aim of the saving program is to encourage net-deficit individuals to increase their savings to achieve their target goals, while at the same time nurturing the habit to save on a regular basis. Opportunities need to be created by developing a distinct saving product aimed at assisting net-deficit households to save for their children's short-term needs, such as next year's education costs. Saving for

[8] Instead of asking for physical collateral, some MFIs such as Grameen Bank require forming a group with like-minded people before financing is provided. The members of the group become ineligible to get financing in any member in the group defaults. As the poor need the financing they put pressure on other member to repay their dues thereby ensuring that the funds are repaid. The group, thus, acts as 'social collateral' and mitigates the credit risk. See Ahmed (2002) for a discussion.

children's needs, notably on education should be emphasized in an inclusive IFP in line with the need to protect and enrich posterity, vis-à-vis the *Maqasid al-Shari'ah*. Chapra (2008: p. 46) highlights that without provision of education, "only the rich will be able to afford good quality education for their children. This will intensify the prevailing inequalities of income and wealth and, in turn, accentuate social tensions and instability."

There is a need to come up with innovative and effective saving techniques schemes that can increase savings among the poorer sections of the population. Rabinovich and Webley's (2007) considered effective saving techniques as those that are psychologically easier and require minimal daily effort. For instance, successful savers were found to use techniques such as automatically transferring a portion of income to another bank account. An example of creating incentives to save is the Saving Gateway pilot in the UK whereby, it was found that financial incentives, such as matched savings, are highly popular for those relatively better off, while those facing more dire financial issues suggested that an increase in earnings would positively affect their decision to save (Kempson and Finney 2009). In other words, there is a need to create and consider various saving programs or incentivizing approaches that may work effectively for different groups of net-deficit households.

Emergency planning

Zakat and *awqaf* can play an important role to mitigate emergencies through providing net-deficit households with the appropriate financial products. One of the main products that should be considered is *takaful*, which protects a household's assets, such as one's residence through home *takaful* products, and one's ability to earn income, via disability income or family *takaful*. In this context, a *takaful* scheme could be created that provides, for instance a 3-year coverage of disability income and home *takaful*, which could be wholly or partially funded, by *zakat* funds and/or *awqaf* proceeds. This 3-year coverage would provide three main benefits. Firstly, it will create the emergency buffer that the *takaful* product provides. Secondly, it will assist to mitigate issues of self-exclusion, which may arise from a lack of awareness and knowledge of *takaful*, or arising from social exclusion. This form of self-exclusion could be addressed by enhancing their understanding and awareness of the benefits and features of *takaful*. Thirdly, once the awareness of the *takaful* product is carried out sufficiently, and as the customer becomes increasingly familiar with the product, it may encourage them to continue using the product at the end of the three-year period, using their own funds, wholly or partially.

Aside from *takaful*, the creation and build-up of emergency savings could also be assisted by using *zakat* funds and *awqaf* proceeds, where savings are concerned. In other words, *zakat* and *awqaf* could assist in funding innovative saving schemes that aim to assist net-deficit individuals to expedite their emergency savings, whilst instilling a regular saving behavior.

In cases where *takaful* and emergency funds are insufficient, the existence of an Islamic pawning (*ar-Rahn*) facility is important to facilitate the poor who have assets, such as personal valuables, to pawn accordingly. Providing Islamic pawning facilities not only enables the poor to get funds to meet emergency needs, it also helps them to avoid dealing with exploitative, informal moneylenders.

Investing for goals

Understandably, with the challenges faced by net-deficit households to manage their daily needs and emergency needs, consideration of investment products or long-term financial products such as mutual funds or stocks which are generally linked to saving for retirement, are the least ranked of their financial needs, as they have more pressing priorities. Nonetheless, it is important that any inclusive IFP approach not only attempts to look at the short-term period, but also focuses on long-term financial events such as retirement. To that end, two factors need to be given due consideration in developing any financial approach that assists net-deficit households to achieve their retirement goals.

The first element that needs consideration is financial inclusion, in the sense of whether any features or aspects of the financial approach promote or hinder financial inclusion. One such example is condition exclusion, where a poorer household would be unable to create a fixed-deposit account due to the high minimum investment amount required. In other words, the creation of new financial products/solutions should consider the conditions that are appealing for net-deficit customers, to ensure financial inclusion. Secondly, there is a need to see how to motivate individuals to save for the long-term financial approach. This does not necessarily need to rely on financial incentives, as motivation may also involve non-monetary factors. For instance, pointing out the realities and challenges of retirement without having sufficient retirement funds, may prove to be low-cost non-monetary motivators. Within the realm of an inclusive IFP approach, the 'financial plan' itself may prove to be one such motivating approach. Here the identification of one's own personal objective as well as the actual realization of where one stands financially may create psychological effects that push individuals to adjust their financial behavior, in line with their personal objectives.

The inclusion of retirement planning or other long-term goals as a poverty alleviation program within an inclusive IFP framework is beneficial, as behavioral studies on savings show the relationship between saving horizons and saving behaviors. For instance, findings by Fisher and Montalto (2010) indicate that the farther one's saving horizon is, the higher the likelihood of regular savings. Furthermore, they also indicated that having a retirement motive significantly increases the chances of saving regularly.

Financial Literacy

One of the concepts that can affect inclusive IFP on the demand side is financial literacy defined as "[a] combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing" (OECD INFE 2011, p. 3). The benefits of financial literacy are evident from studies such as Lusardi and Mitchell (2007) which indicates that those knowledgeable in finance, such as knowledge on compounding, tend to make better financial decisions. Other studies highlight that those with low financial literacy scores are likely to be households with low income and wealth. For instance, the Social Research Centre (2008) in Australia finds that financial literacy scores were lower for those with household incomes of less than $25,000 per annum, while those with $150,000 per annum were associated with higher scores. Similar findings on the influences of income and wealth is also found in Dvorak and Hanley (2010), Lusardi, Mitchell & Curto (2010) and Monticone (2010), suggesting that individuals on relatively low income are less likely to make optimal financial decisions. Therefore, it is imperative that any poverty alleviation effort should include financial literacy programs to improve financial decisions.

In view of the three hierarchical levels, it would be beneficial for financial planners to identify 'teachable moments', where the practice of managing one's short-term finances, emergency planning and retirement planning can be introduced or re-iterated to low-income households.

However, increasing 'financial literacy' itself may not lead to the desired outcome of affecting one's behavior. Lusardi and Mitchell (2007) state that delivery of financial knowledge is insufficient as individuals face difficulties following up on their planned actions. Further, Mandell and Klein (2007) find that even after attending a course in personal finance, financial literacy scores of young adults were relatively low. More interestingly, effective financial literacy is found to be linked to the individuals' view of their future goals; having clear, personal objectives that individuals aspired to, links with the effectiveness of financial literacy programmes. The emphasis should be on having a clear, personal objective or a particular goal-setting approach already exists, whereby at the planning stage, the personal objectives of the customer are expressed to the planner and detailed in the financial plan itself.

4.3 Net-Surplus Households

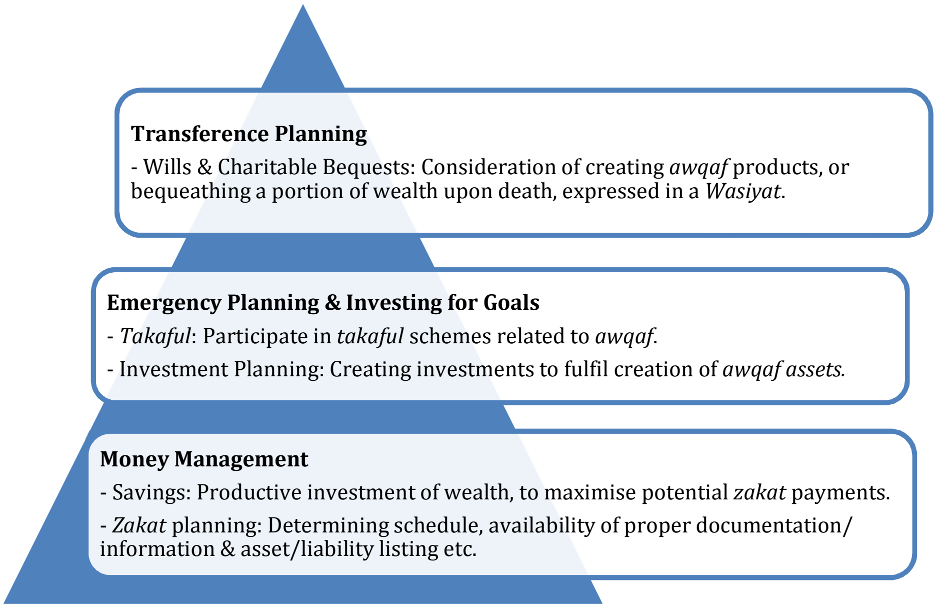
To establish an inclusive IFP framework, the role of net-surplus households is crucial as they contribute to the supply-side of the framework. In other words, the supply of *zakat* and *awqaf* depends on net-surplus households fulfilling their obligation to pay *zakat fitr* and *zakat* on income/wealth, as well as creating *awqaf* assets, notably those that are philanthropic in nature or that create socio-economic benefits. Philanthropic *awqaf* is emphasized, more so than religious *awqaf*, as the proceeds from these revenue-generating *awqaf* assets are one of the sources of funds contributing to the inclusive IFP approach for net-deficit households, which includes the provision of income support during the budgeting process and the innovative saving programmes described earlier.

The role and emphasis on *zakat* and philanthropic or socio-economic *awqaf* from the net-surplus IFP perspective is also pivotal vis-à-vis the notion of a 'social contract'[9] in the World Bank's shared prosperity measure. In fact, this is already implied in Islam, in understanding the wealth distribution role of charity in general or more specifically, the instruments of *zakat*, *awqaf* and *sadaqah* to constantly improve the well-being of the *ummah* as a whole, not just a small group of individuals.

The supply-side or contribution of net-surplus households towards an inclusive IFP framework can be illustrated further through an Islamic financial planning hierarchy. Before elaborating on each hierarchical level, it should be noted that only aspects directly related to *zakat* and *awqaf* are shown in the diagram, and that other aspects such as budgeting, creating a financial plan and retirement planning, though not explicitly described, are equally important to net-surplus households.

[9] Social contract refers to a policy commitment from stakeholders to provide priority to support the income-growth of low-income households, ensuring that investments to promote shared prosperity is sustained across generations and over time {World Bank, 2013 #324}.

Figure 4: Role of *Zakat* and *Awqaf* on Islamic Financial Planning for Net-Surplus Households



Money management

For high-income and middle-income households, there is a need to ensure all savings or funds are productively invested, not only to mitigate inflation and earn profits, but also towards maximizing the potential *zakat* payments that one would be able to pay. In terms of Islamic financial planning, financial planners should play a crucial role towards providing a *zakat* planning service for Muslims such as assisting the customers to compute the *zakatable* amount for the relevant assets owned by net-surplus individuals. This should include determining, or suggesting to the customer, a feasible schedule towards computing the *zakat* payment for the differing assets that the customer may possess, as well as highlighting the relevant assets, debts and other such information/documentation that are necessary to calculate the amount.

Emergency planning and Investing for goals

Aside from *zakat* planning, Islamic financial planners should also create awareness of the potential benefits of philanthropic *waqf* assets and encourage net-surplus individuals to create these assets. One particular approach towards creating philanthropic *waqf* falls within the realm of emergency planning, and involves a '*Takaful Waqf* Plan' such as that described by Hashim (2007). Here, the synthesis of *waqf* and *takaful* results in a '*Takaful Waqf* Plan', which essentially provides the attraction of accumulating wealth for *waqf* purposes, while being assured that one can still contribute to *waqf* even if one passes away before the end of the *takaful* contract.

Another approach towards creating *awqaf* assets lies in investing for future goals. In this context, Islamic financial planners would not only encourage customers to create philanthropic *waqf* assets but also ideally assist net-surplus customers to ascertain the total amount required for the desired *waqf*, as well as deciding the optimal investment vehicle and the regular amount needed for investment. This may involve traditional approaches to cash *waqf*, towards utilizing the cash directly as interest-free loans to beneficiaries, or investing the cash and only the returns are provided to the beneficiaries (Ahmed 2004; Hasan and Shahid 2010). Further, contemporary approaches utilizing securitization could be undertaken, with the need for funds broken down into relatively small denominations, which can be acquired through *waqf* certificates. Here, the resulting funds could then be used to purchase real estate for the purpose of renting them, and the resulting rental proceeds would then be provided to the beneficiaries.

Transference planning

The creation of *waqf* assets may also take place through the estate planning process, where Islamic financial planners may still play a pertinent role. Here, as the law of inheritance in Islam allows bequeathing up to a maximum of one-third of one's wealth after settling debt, a net-surplus individual desiring to create a *waqf* asset upon death, should be assisted accordingly and advised to express so in his/her will (*wasiyat*).

5. IMPLICATIONS AND CONSTRAINTS

The above section highlighted a different approach to mitigate poverty through the perspective of an inclusive financial planning framework placing due consideration to contemporary issues such as financial exclusion and financial literacy, alongside the Islamic institutions of *zakat* and *awqaf*, under the lens of financial planning.

The main implication of this approach is that it attempts to provide a novel paradigm of mitigating poverty, to look at the bigger picture of planning one's finances, not simply in the short-term but also from the perspective of one's lifetime to deal with both expected and unexpected events. Using financial planning comprehensively avoids a myopic perspective towards mitigating poverty as it provides a framework that considers the poor's money management or short-term goals as well as his/her long term needs such as saving prospects for his/her retirement or children's education. Ideally a social financial planner working in a welfare agency can analyse the financial needs of the poor at that point in time (such as the provision of income support or fulfillment of emergency needs) but is also aware of long-term needs such as retirement. Although short-term solutions may improve the current living conditions of the poor, this approach reduces their likelihood of falling back into poverty in the longer term, particularly in old age, when productivity and employability diminishes.

The paper also provides new perspectives on incorporating *zakat* and *awqaf* with contemporary notions of financial exclusion and literacy. This aspect is important, as there is a need to constantly review the ways that *zakat* and *awqaf* can work within the purview of modern financial approaches, as matters concerning personal finance changes from one time period to another. The importance of financial exclusion is a prime example, where *zakat* and *awqaf* can remain both pertinent and maximize the value of its contribution to the poor. Integrating *zakat* and *awqaf* into inclusive financial planning such as money management through saving programs and Islamic microfinance ensures that the poor have access to financial products and services. In doing so, the poor can benefit from services of mainstream financial institutions, as opposed to alternative financial providers or money lenders that offer products at unfair terms and conditions.

For welfare institutions and recipients, a significant implication of the inclusive IFP approach is that it requires a more direct and enhanced personal relationship between recipients and the institution. Given the nature of financial planning, there would be a heightened interaction and discussion concerning the recipients' personal goals, diverse financial needs and the financial issues faced by the recipients. These are necessary in order for the financial planner to create a personalized financial plan, put the plan into action and review the plan periodically. One particular attraction of taking the inclusive IFP framework to mitigate poverty is that it avoids a 'one-size-fits-all' approach towards combating poverty. This is important in any poverty alleviation effort due to the multi-faceted nature of poverty. The inclusive IFP framework provides a broad financial umbrella that covers both short-term and long-term goals, as well as takes into account known and unknown events. Within this broad framework, a specific financial plan for each household with respect to their financial goals and needs at different levels of the hierarchy can be developed.

The IFP framework, however, requires the availability of individuals with Islamic financial planning knowledge, who interact and enlist net-deficit households as their customers. This social planner role may require distinct skills-set due to the social orientation in relations to net-deficit households, as well as requisite knowledge on *zakat* and *awqaf* in their role as advisors to net-surplus households. One obvious implication is that existing *zakat* and *awqaf* institutions play the role of social planner by incorporating the financial planning dimensions in their operations.

Taking all the above implications into context, the operational framework of inclusive IFP takes the form of a case-based approach, with social financial planners ensuring net deficit households have a defined, personalized financial plan that accommodates the financial needs of the household. Benefitting from the developments of contemporary personal finance and combining it with other concepts of *zakat*, *awqaf*, financial exclusion and financial literacy provides a novel framework of alleviating poverty that can be integrated in the the practices of welfare agencies in general, and social financial planners in particular.. Whilst the primary activity of financial planning is important, financial literacy programs would assist to provide the means for the households' financial well-being to be sustainable in the long-run, as it aims to impart financial knowledge onto the day-to-day activities of net deficit households.

6. CONCLUSION

Financial inclusion is considered a key tool for poverty alleviation and development and can enhance both equity and efficiency (Demirgüc-Kunt and Levine 2008). While literature on financial inclusion focuses on specific financial products such as credit, financing or insurance, this paper provides a holistic framework of providing financial services to the poor from a financial planning perspective. The paper develops an approach whereby financial planning, commonly designated for the high-income and middle-income class, is expanded further to include low-income households and those in poverty. A key requirement to implement IFP at the industry level is the availability of the various Shari'ah compliant instruments and products for money management, emergency planning, investing for goals and transference planning.

Recognizing a hierarchy of financial needs starting with the lowest level of money management, followed by emergency planning and finally investing for goals, the inclusive IFP framework covers financial decision for short-term and long-term life events, as well as prepares for unknown events or emergencies and known events such as retirement. By combining the traditional Islamic institutions of *zakat* and *awqaf* with contemporary notions of financial exclusion and financial literacy in line with the intention of attaining *falah* in this world and the next, the framework of inclusive IFP can be used as a holistic approach to financial inclusion and poverty alleviation. The application of the inclusive IFP framework would, however, require institutional development of a social planner with distinct financial planning skills that can integrate *zakat, waqf* and financial planning to serve the financial needs of the poor, substituting the value-neutral approach of conventional financial planning to that of a value-laden approach reflecting the values and principles of *Shari'ah*.

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Table 1: The Financial Planning Model

	Current period	**Future period**
Planned financial events	Money management - Budgeting - Income tax planning	Investing for goals - Investment planning - Retirement planning
Unplanned financial events	Emergency planning - Risk Management	Transference planning - Estate planning

Source: Adapted from Chieffe and Rakes (1999, p. 262)

Table 2: Financial Needs of Net-Deficit and Net-Surplus Households in an Inclusive Framework

	Net-Deficit Households	**Net-Surplus Households**
Money Management	- Budgeting: Provision of income support through *zakat* funds. - Productive financing: Microcredit via use of *murabahah* etc., using *awqaf* proceeds. - Consumer loan: *Qard hasan,* using *awqaf* proceeds. - Savings: W*adiah* account facility, using *awqaf* proceeds and *zakat* funds.	- Savings: Productive investment of wealth, to maximise potential *zakat* payments. - *Zakat* planning: Determining schedule, availability of proper documentation/ information & asset/liability listing etc.
Emergency Planning	- *Takaful*: Disability income *takaful*, home *takaful* , familly *takaful* etc., using *zakat* funds and *awqaf* proceeds. - Emergency savings: W*adiah* account facility, using *awqaf* proceeds. - Provision of *ar-Rahn* facility, using *awqaf* proceeds.	*Takaful*: Participate in *takaful* schemes related to *awqaf*.
Investing for Goals	- Retirement savings	Investment Planning: Creating investments to fulfil creation of *awqaf assets*.
Transference Planning		- Wills & Charitable Bequests: Consideration of creating *awqaf* products, or bequeathing a portion of wealth upon death, expressed in a *Wasiyat*.