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The Influence of Islamic Financial Literacy on Sustainable Investment Decisions in Islamic Financial Instruments

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Abstract

Growing concern over sustainability issues has encouraged the development of investment practices that not only focus on financial returns but also consider social and environmental impacts. In the context of Islamic finance, sustainable investment is closely aligned with Sharia principles that emphasize justice, social responsibility, and public welfare (*maslahah*). This study aims to analyze the influence of Islamic Financial Literacy on sustainable investment decisions in Islamic financial instruments. The study employs a qualitative approach using a library research method by collecting and analyzing relevant literature on Islamic financial literacy, sustainable investment, Environmental, Social, and Governance (ESG) principles, and sustainable Islamic financial instruments. Data were analyzed using content analysis and thematic analysis to identify relationships among the examined concepts. The findings indicate that Islamic Financial Literacy plays a significant role in enhancing investors' understanding of Sharia principles, the characteristics of Islamic investment instruments, and sustainability values that are consistent with ESG and *maqashid al-shariah*. A higher level of literacy encourages investors to make investment decisions that consider not only financial returns but also social and environmental impacts. Furthermore, instruments such as green sukuk, sustainability sukuk, and SRI sukuk represent the integration of Sharia principles and sustainability objectives. This study concludes that strengthening Islamic Financial Literacy can serve as an important strategy for promoting sustainable investment in Islamic financial instruments.

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INTRODUCTION

The development of sustainability issues has driven transformation in the global financial sector, marked by increasing attention to investment practices that are not only oriented toward financial returns but also consider social and environmental impacts. The concept of sustainable investment has gained increasing attention alongside the growing awareness of investors regarding the importance of Environmental, Social, and Governance (ESG) principles in the investment decision-making process. In this context, investors no longer merely consider aspects of risk and return, but also pay attention to the contribution of investment to sustainable development and social welfare. Various studies show that ESG factors, ethical preferences, and social awareness are important determinants in shaping sustainable investment behavior (Bihari et al., 2025; Gupta & Goswami, 2024; Jonwall et al., 2022).

In line with this development, the Islamic finance industry has great potential to support the sustainable development agenda. The fundamental principles of Islamic finance, which emphasize justice, transparency, social responsibility, and public benefit, are aligned with the sustainability goals promoted in the Sustainable Development Goals (SDGs). Various studies show that Islamic finance can contribute to the achievement of the SDGs through various instruments that support inclusive and sustainable economic development. In addition, the development of Islamic financial instruments such as green sukuk, sustainability sukuk, Islamic mutual funds, and ESG-based Islamic stocks indicates the increasingly strong integration between sharia principles and the concept of sustainability (Fodol & Aslan, 2025; Harahap et al., 2023; Laldin & Djafri, 2021; Raimi et al., 2024).

Although opportunities for developing sustainable Islamic investment are increasing, public participation in Islamic financial instruments is still influenced by various factors, one of which is the level of Islamic financial literacy. Islamic Financial Literacy (IFL) refers to an individual's ability to understand the concepts, principles, products, and mechanisms of finance that comply with sharia, thereby enabling them to make appropriate financial decisions. Islamic financial literacy is important because investment decisions in Islamic instruments require not only an understanding of financial aspects but also an understanding of the sharia principles underlying them. A good level of literacy enables investors to assess the suitability of an instrument with their financial needs as well as the values they uphold.

Research on Islamic Financial Literacy has developed significantly in recent years. A number of studies have found that Islamic financial literacy has a positive effect on financial behavior, investment interest, and investment decisions. Individuals with higher levels of Islamic financial literacy tend to have a better understanding of investment risks, greater confidence in making investment decisions, and more active engagement in utilizing Islamic financial products. In addition, religiosity and motivation have also been found to strengthen the relationship between Islamic financial literacy and investment intention in various Islamic financial instruments (Awwal, 2025; Hidayat & Diana, 2024; Naqvi et al., 2025; Rahman & Arsyianti, 2021; Roemanasari et al., 2022).

On the other hand, research on sustainable investment generally focuses on investor behavior in adopting ESG principles and responsible investment. These studies have mostly been conducted in the context of conventional finance by placing environmental awareness, ethical values, and social preferences as the main determinants of investment decisions (Jonwall et al., 2022, 2022). In addition, ESG-based interventions have also been shown to increase retail investor engagement in sustainable finance practices (Hutchings, 2025). Meanwhile, studies on Islamic finance and sustainability have mostly highlighted the contribution of Islamic financial institutions, the implementation of green sukuk, ESG integration in Islamic instruments, and the role of Islamic finance in supporting the SDGs (Fodol & Aslan, 2025; Harahap et al., 2023; Laldin & Djafri, 2021; Raimi et al., 2024). Thus, the literature that directly connects Islamic Financial Literacy with sustainable investment decisions remains relatively limited.

Based on the existing literature review, several research gaps can be identified. First, studies on Islamic Financial Literacy generally focus on Islamic investment decisions in general without specifically linking them to the concept of sustainable investment (Awwal, 2025; Roemanasari et al., 2022). Second, studies on sustainable investment decisions are mostly conducted in the context of conventional investment, so they have not sufficiently considered the role of Islamic financial literacy as a factor influencing investment decisions (Bihari et al., 2025; Gupta & Goswami, 2024). Third, research that integrates Islamic Financial Literacy, sustainable investment decisions, and Islamic financial instruments into a single analytical framework remains very limited. Most studies only discuss the relationship between Islamic finance and sustainability at the institutional, instrumental, or policy level (Ben Jedidia & Ghroubi, 2025; Habib, 2023; Raimi et al., 2024), while the aspect of investor literacy as a driving factor for sustainable investment decisions has not been widely explored. In fact, understanding sharia principles has the potential to shape investment behavior that is not only oriented toward economic profit but also considers sustainability and public benefit.

Based on this gap, this study offers novelty in the form of a conceptual synthesis regarding the influence of Islamic Financial Literacy on sustainable investment decisions in Islamic financial instruments. This study integrates the literature on Islamic financial literacy, sustainable investment, and sustainable Islamic finance to explain how understanding the principles of Islamic finance can influence investors' preferences in choosing investment instruments that align with sustainability principles. By using a library research approach, this study aims to analyze the relationship between Islamic Financial Literacy and sustainable investment decisions and to identify the role of Islamic financial instruments in supporting sustainable investment practices.

METHOD

This study uses a qualitative approach with a library research method. This method was chosen because the study aims to analyze, examine, and synthesize various scientific findings related to Islamic Financial Literacy, sustainable investment decisions, and Islamic financial instruments. Through this approach, the study does not collect primary data directly from respondents, but instead utilizes various relevant literature sources to build a comprehensive conceptual understanding of the relationship among the variables studied.

The data sources used in this study consist of secondary data derived from scientific articles, books, conference proceedings, reports from international institutions, and official documents related to Islamic finance and sustainable investment. Scientific articles were obtained from various academic databases, such as Scopus, Web of Science, Dimensions, and Google Scholar.

Data collection was carried out through several stages. The first stage was topic identification and the determination of keywords relevant to the research focus, such as Islamic financial literacy, sustainable investment, investment decision, Islamic finance, green sukuk, ESG investment, and sustainable finance. The second stage was literature searching through academic databases using keyword combinations and Boolean operators to obtain relevant sources. The third stage was the literature selection process based on thematic suitability, relevance to the research objectives, and publication quality. The selected literature was then classified into several main themes, including Islamic Financial Literacy, sustainable investment decisions, sustainable Islamic finance, and Islamic financial instruments that support sustainable development.

Data analysis was conducted using content analysis and thematic analysis techniques. Content analysis was used to identify the concepts, theories, and main findings contained in the reviewed literature. Furthermore, thematic analysis was used to group these findings into interrelated themes, thereby illustrating the pattern of relationship between Islamic Financial Literacy and sustainable investment decisions. The results of the analysis were then synthesized narratively to produce a more comprehensive understanding of the role of Islamic financial literacy in encouraging investment decision-making oriented toward sustainability principles.

Through this process, this study seeks to build a conceptual framework that explains the influence of Islamic Financial Literacy on sustainable investment decisions in Islamic financial instruments. This conceptual framework is expected to serve as a basis for the development of future empirical research and to contribute to the development of Islamic finance and sustainable finance literature.

RESULTS AND DISCUSSION

Islamic Financial Literacy from the Perspective of Islamic Investment

Islamic Financial Literacy (IFL) is a concept that has developed as part of financial literacy by integrating individuals' knowledge, understanding, and ability to manage finances in accordance with sharia principles. Unlike conventional financial literacy, which focuses on the ability to understand financial products and services in general, Islamic Financial Literacy includes an understanding of fundamental sharia principles such as the prohibition of *riba*, *gharar*, and *maysir*, as well as knowledge of various Islamic financial instruments available in the market. Thus, Islamic financial literacy does not only function as a means of improving financial decision-making ability, but also as a guideline for individuals in ensuring that their financial activities are aligned with Islamic values.

Studies on Islamic Financial Literacy show that this concept is a multidimensional construct consisting of several main aspects. Dinc et al. (2021) explain that Islamic financial literacy includes the dimensions of knowledge, skills, attitude, and behavior in the context of financial management based on sharia principles. In line with this, Saputra & Rahmatia (2020) developed an Islamic financial literacy index that places understanding of sharia principles and Islamic financial products as the main components in measuring individual literacy levels. These findings indicate that Islamic Financial Literacy is not only related to the ability to understand financial information, but also reflects individuals' ability to apply sharia values in daily economic activities.

In the context of investment, Islamic Financial Literacy has a very important role because investment decisions in Islamic instruments require a more complex understanding than conventional investment. Investors do not only need to understand the risk and return characteristics of an instrument, but must also be able to assess the level of compliance of that instrument with sharia principles. Therefore, an adequate level of literacy will help investors identify instruments that are suitable for their financial needs while also fulfilling sharia compliance aspects. Asetya & Dahlan (2026) explain that individuals with a high level of Islamic financial literacy tend to have better ability to evaluate financial products, understand the consequences of investment risks, and make more rational and responsible financial decisions.

Various empirical studies also show that Islamic Financial Literacy influences the adoption of Islamic financial services and products. The study by Pala et al. (2023) found that higher levels of Islamic financial literacy encourage increased use of Islamic banking services because individuals have a better understanding of the benefits, mechanisms, and advantages of the products offered. Similar findings were presented by Yusfiarto et al. (2022), who showed that Islamic Financial Literacy contributes to increasing public interest in participating in the Islamic capital market. Individuals who understand Islamic investment principles tend to have greater confidence in investing in instruments that comply with sharia provisions.

In addition to influencing the level of adoption of Islamic financial products, Islamic Financial Literacy also plays a role in shaping individual financial behavior. Saleh et al. (2023) revealed that a high level of literacy enables individuals to make better financial planning, manage risks more effectively, and allocate financial resources more optimally. This finding is reinforced by Subhan et al. (2025), who show that Islamic financial literacy contributes to the formation of more responsible consumption patterns and financial behavior. In other words, Islamic financial literacy not only influences investment decisions, but also shapes more sustainable economic behavior patterns.

The development of digital technology has also expanded the role of Islamic Financial Literacy in promoting Islamic financial inclusion. Ariyanto & Sholahuddin (2026) show that individuals with a good level of Islamic financial literacy are more easily able to adapt to various digital-based Islamic financial services. Meanwhile, Muttaqien et al. (2025) found that the combination of religiosity and Islamic financial literacy can increase public acceptance of Islamic digital financial services. These findings indicate that Islamic financial literacy is an important factor in expanding public access to various Islamic financial instruments that continue to develop alongside the digital transformation of the financial sector.

Based on these various findings, it can be understood that Islamic Financial Literacy is a fundamental factor that influences individuals' ability to understand, evaluate, and utilize Islamic financial products. Islamic financial literacy not only increases knowledge of Islamic investment instruments, but also shapes more responsible financial attitudes and behavior. Therefore, Islamic Financial Literacy can be viewed as a main foundation that influences a person's investment decisions, including in the context of sustainable investment in Islamic financial instruments.

The Concept of Sustainable Investment Decisions

Sustainable investment decision refers to the process of making investment decisions that not only considers financial returns and risks, but also takes into account the social, environmental, and governance impacts generated by investment activities. This concept has developed alongside increasing global awareness of climate change, social inequality, and the importance of sustainable development. In practice, investors increasingly consider how the funds they invest can make a positive contribution to society and the environment without neglecting long-term economic objectives.

The literature on sustainable investment shows that this concept is closely related to the Environmental, Social, and Governance (ESG) approach. ESG is a framework used by investors to evaluate the performance and sustainability of a company or investment instrument based on three main dimensions: environmental, social, and corporate governance aspects. Yunus & Nanda (2024) explain that ESG integration in the investment process allows investors to obtain a more comprehensive picture of long-term risks and opportunities that may not be reflected in traditional financial indicators. Therefore, ESG is increasingly viewed as one of the important instruments in supporting responsible and sustainable investment practices.

The development of the sustainable investment concept also shows a shift in investor behavior from an approach that is solely profit-oriented toward an approach that pays greater attention to ethical values and sustainability. Beisenbina et al. (2023) explain that sustainable investment has transformed from merely philanthropic activity into an investment strategy capable of creating economic value while also generating positive social and environmental impacts. In this context, investors no longer pursue only financial returns, but also consider how their investments can support more inclusive and sustainable development.

Knowledge and literacy factors also play an important role in shaping sustainable investment decisions. Cheng & Cao (2025) found that investors' level of knowledge regarding sustainability and ESG issues influences their tendency to choose responsible investment instruments. Investors who have a better understanding of environmental risks, corporate social impacts, and good governance practices tend to show greater interest in sustainable investment. This finding shows that the quality of investment decisions is influenced not only by financial information, but also by investors' level of understanding of sustainability issues.

In addition to knowledge, psychological and behavioral factors also influence sustainable investment decisions. Bihari et al. (2025) explain that investor behavioral biases can affect how ESG information is processed and used in investment decision-making. In some cases, investors may ignore sustainability information because they focus more on short-term gains. However, increasing awareness of environmental and social risks has encouraged more investors to consider ESG factors as part of long-term investment strategies. This finding shows that sustainable investment decisions are the result of interaction among rational factors, psychological factors, and the values held by investors.

Furthermore, Yucel et al. (2023) affirm that sustainable finance literacy has a positive relationship with sustainability-oriented investment attitudes and preferences. Investors who understand the concept of sustainability tend to be better able to evaluate the long-term impact of an investment and consider non-financial risks that may affect investment performance in the future. Thus, increasing literacy regarding sustainability becomes one of the important factors in encouraging the growth of responsible investment.

From the perspective of Islamic finance, the concept of sustainable investment has strong alignment with Islamic principles. Values such as justice, social responsibility, environmental protection, and public welfare are principles inherently contained in Islamic teachings. Ma'ruf et al. (2021) explain that ESG criteria have significant compatibility with sharia principles because both emphasize the importance of economic activities that provide benefits to society and avoid harmful impacts. Therefore, sustainable investment can be viewed as a form of implementing sharia values in modern investment activities.

Based on the explanation above, sustainable investment decisions can be understood as investment decisions that consider the balance between economic, social, and environmental objectives through the integration of ESG principles in the decision-making process. These decisions are influenced not only by financial factors, but also by investors' knowledge, literacy, ethical values, and awareness of sustainability issues. In the context of this study, the concept of sustainable investment decisions becomes the basis for understanding how Islamic Financial Literacy can influence investor preferences in choosing Islamic financial instruments that are not only compliant with sharia principles, but also support sustainable development goals.

The Influence of Islamic Financial Literacy on Sustainable Investment Decisions

Islamic Financial Literacy (IFL) is one of the factors that plays an important role in shaping individual investment behavior and decisions. In the context of Islamic finance, literacy is not only related to understanding basic concepts of finance and investment, but also includes the ability to understand the sharia principles that underlie every economic activity. Therefore, a high level of Islamic financial literacy can encourage investors to make decisions that are more rational, responsible, and aligned with Islamic values. A number of studies show that Islamic Financial Literacy has a positive influence on the adoption of Islamic financial products, investment interest, and financial decision-making behavior (Ariyanto & Sholahuddin, 2026; Pala et al., 2023; Yusfiarto et al., 2022).

The influence of Islamic Financial Literacy on sustainable investment decisions can be explained through the improvement of investors' ability to understand the characteristics of investment instruments, investment risks, and the economic objectives to be achieved. Individuals with a good level of Islamic financial literacy tend to be better able to evaluate various investment alternatives before making decisions. They do not only consider the level of return offered, but also pay attention to sharia compliance aspects and the impacts generated by the investment. Asetya & Dahlan (2026) explain that Islamic financial literacy contributes to improving the quality of financial decision-making because individuals have a better understanding of the economic consequences of each investment choice they make.

In addition to improving investment analysis ability, Islamic Financial Literacy also plays a role in shaping investor awareness of the social and ethical values contained in the Islamic financial system. Unlike conventional investment approaches that often focus on profit maximization, Islamic investment emphasizes the importance of balance between economic gain and social benefit. Understanding sharia principles encourages investors to avoid activities involving elements of *riba*, *gharar*, and *maysir*, and to prefer investments that provide benefits to society. In this context, Islamic Financial Literacy can serve as a means of strengthening investors' orientation toward responsible and sustainable investment.

The relationship between financial literacy and sustainable investment is also supported by various studies showing that increased financial literacy contributes to greater investor interest in investment instruments that consider environmental, social, and corporate governance aspects. Mansyur & Rahim (2025) found that financial literacy has a positive influence on green investment decisions because investors with adequate knowledge are better able to understand the long-term benefits of sustainable investment. Similar findings were presented by Kelkar (2026), who showed that green financial literacy plays a role in increasing investor preference for investment instruments that support environmental sustainability. These research findings indicate that literacy is an important factor in shaping sustainability-oriented investment behavior.

In the context of Islamic finance, this relationship becomes increasingly relevant because there is value compatibility between sharia principles and the concept of sustainability. Islam teaches the importance of maintaining balance between individual interests and public interests, and encourages the responsible use of resources. Therefore, investors with a high level of Islamic Financial Literacy do not only understand the technical aspects of Islamic investment, but also understand the social and economic objectives intended through the application of sharia principles. This understanding ultimately influences investor preferences in choosing investment instruments that are not only halal according to sharia, but also contribute to sustainable development.

The role of Islamic financial literacy in encouraging sustainable investment can also be explained through increased awareness of ESG issues and sustainable development. Fiqran et al. (2025) show that ESG awareness supported by an understanding of *maqashid sharia* can increase investor interest in green investment. This finding indicates that investors who understand the objectives of sharia tend to more easily accept the concept of sustainability because both share the same orientation, namely creating public benefit and reducing negative impacts on society and the environment. Thus, Islamic Financial Literacy can become a factor that bridges the integration between sharia principles and sustainable investment practices.

In addition, the development of digital financial technology further strengthens the relationship between financial literacy and sustainable investment. Hayat et al. (2026) found that digital financial literacy has a positive influence on ESG-based investment decisions because investors who are able to understand digital financial information can more easily access information related to the sustainability performance of an investment instrument. This finding shows that increasing financial literacy, both in sharia and digital aspects, can expand investor access to various sustainable investment instruments available in the financial market.

Based on these various findings, it can be understood that Islamic Financial Literacy has a strategic role in shaping sustainable investment decisions. Islamic financial literacy improves investors' ability to understand the characteristics of investment instruments, evaluate investment risks and benefits, and internalize the social and ethical values contained in sharia principles. In addition, understanding *maqashid sharia* and the concept of sustainability encourages investors to choose investment instruments that not only provide financial returns, but also contribute to social welfare and environmental preservation. Therefore, Islamic Financial Literacy can be positioned as a fundamental factor influencing the formation of sustainable investment decisions in Islamic financial instruments.

Islamic Financial Instruments as a Means of Sustainable Investment

The development of the sustainable finance concept has encouraged the emergence of various investment instruments that not only provide economic benefits, but also support the achievement of social and environmental goals. In the context of Islamic finance, sustainable investment instruments have gained increasing attention because they are aligned with sharia principles that emphasize justice, social responsibility, and public benefit. Various studies show that Islamic finance has significant potential in supporting the sustainable development agenda through instruments that are able to integrate economic, social, and environmental objectives simultaneously (Harun & Rahmat, 2025; Saba et al., 2021).

The relationship between Islamic finance and sustainability is basically rooted in the shared values underlying both concepts. The Islamic financial system emphasizes the importance of economic activities that provide benefits to society, avoid exploitation, and encourage a fairer distribution of welfare. On the other hand, the concept of sustainable finance aims to create sustainable economic growth by considering social and environmental impacts. Ma'ruf (2021) explains that Environmental, Social, and Governance (ESG) principles have strong compatibility with sharia values because both emphasize responsibility, transparency, justice, and sustainability in economic activities. Therefore, various Islamic financial instruments have the potential to become effective means of sustainable investment.

One of the instruments most widely discussed in the literature is green sukuk. Green sukuk are sharia securities issued to finance projects that provide environmental benefits, such as renewable energy, energy efficiency, waste management, and environmentally friendly infrastructure development. Unlike conventional sukuk whose use of proceeds is more general, green sukuk specifically allocate funds to projects that support environmental sustainability. Fitrah & Soemitra (2022) explain that green sukuk have become a strategic instrument in supporting the achievement of the Sustainable Development Goals (SDGs), especially those related to climate action, clean energy, and sustainable infrastructure development. This finding is reinforced by Alkadi (2024), who states that green sukuk can serve as an alternative financing instrument that integrates sharia principles with global sustainability goals.

In addition to green sukuk, another instrument developing in Islamic finance is Sustainability and Responsible Investment (SRI) Sukuk. This instrument is designed to support projects that generate positive social and environmental impacts while fulfilling responsible investment principles. Delle Delle Foglie & Keshminder (2022) explain that SRI Sukuk is one of the important innovations in the Islamic finance industry because it is able to connect sustainable development financing needs with investor preferences that increasingly consider social and environmental aspects. The presence of SRI Sukuk shows that responsible investment principles and sharia principles can be integrated into a single financial instrument with clear sustainability objectives.

The development of sustainable investment in Islamic finance is also reflected in the increasing integration of ESG principles into various Islamic investment instruments. Not limited to sukuk, ESG implementation has also begun to appear in the management of Islamic mutual funds, Islamic stocks, and various other investment products. Siregar (2025) explains that ESG integration in Islamic finance provides added value for investors because it enables investment assessment to be carried out more comprehensively by considering non-financial aspects that affect long-term sustainability. Thus, investors do not only obtain economic benefits, but can also contribute to the creation of positive social and environmental impacts.

From the perspective of sustainable development, Islamic financial instruments have a significant contribution to the achievement of the SDGs. Saba et al. (2021) affirm that various Islamic financial instruments can serve as a means to support inclusive development through financing productive sectors that provide benefits to the wider community. Similarly, Harun & Rahmat (2025) state that Islamic finance has great potential to promote sustainable development because of its characteristics that emphasize social justice, fair risk-sharing, and investment in the real economic sector. Therefore, the development of sustainable Islamic investment instruments can become one of the strategies to strengthen the contribution of the financial sector to the achievement of global development goals.

The relationship between Islamic financial instruments and sustainability can also be explained through the perspective of *maqashid sharia*. Rahim et al. (2024) explain that the main objectives of sharia are not limited to fulfilling the legality aspects of transactions, but also include efforts to realize public benefit and prevent harm (*mafsadah*) in human life. In the context of investment, this principle is reflected in the selection of instruments that do not only provide financial returns, but also support social welfare and environmental sustainability. Therefore, instruments such as green sukuk, SRI sukuk, and ESG-based Islamic investment can be viewed as concrete implementations of *maqashid sharia* objectives in the modern financial system.

Based on the explanation above, it can be understood that Islamic financial instruments have a strategic role as a means of sustainable investment. Green sukuk, SRI sukuk, and various Islamic instruments that integrate ESG principles show that Islamic finance is not only oriented toward compliance with religious principles, but is also able to make a real contribution to sustainable development. Thus, these instruments become relevant investment alternatives for investors who wish to combine financial objectives, sharia compliance, and commitment to sustainability in a single investment decision.

Conceptual Model of the Influence of Islamic Financial Literacy on Sustainable Investment Decisions

Based on the synthesis of the various literature discussed, it can be understood that Islamic Financial Literacy has a significant role in shaping sustainable investment decisions in Islamic financial instruments. This relationship does not occur directly solely because of increased financial knowledge, but also through the formation of understanding of sharia principles, awareness of sustainability values, and investment preferences oriented toward public benefit. Therefore, a conceptual model is needed to explain the mechanism of the relationship between Islamic Financial Literacy and sustainable investment decisions more comprehensively.

As explained in the previous subsection, Islamic Financial Literacy includes individuals' ability to understand Islamic financial concepts, recognize the characteristics of Islamic financial products, understand sharia principles in financial transactions, and apply this knowledge in economic decision-making. Dinc et al. (2021) and Asetya & Dahlan (2026) explain that higher literacy levels improve individuals' ability to evaluate various investment alternatives and understand the consequences of the decisions they make. Thus, Islamic Financial Literacy can be positioned as an initial factor influencing investor investment behavior.

In the context of Islamic investment, increased Islamic financial literacy will encourage the formation of a better understanding of Islamic investment instruments and the economic objectives of Islam. Yusfiarto et al. (2022) show that individuals with good Islamic financial literacy tend to have greater interest in participating in the Islamic capital market. Similar findings were also presented by Pala (2023), who found that Islamic financial literacy contributes to the increased adoption of Islamic financial services. This shows that literacy plays a role in shaping investors' understanding of the benefits, risks, and characteristics of Islamic financial instruments.

Furthermore, understanding sharia principles has the potential to increase investor awareness of sustainability values. Sharia principles do not only emphasize compliance with religious rules, but also contain values of justice, social responsibility, environmental protection, and public welfare. These values have strong alignment with the concepts of ESG and the Sustainable Development Goals (SDGs). Ma'ruf (2021) explains that ESG principles have a significant point of convergence with sharia principles because both emphasize responsible and sustainability-oriented economic activities. Therefore, investors who understand sharia principles more deeply tend to more easily accept and internalize the concept of sustainable investment.

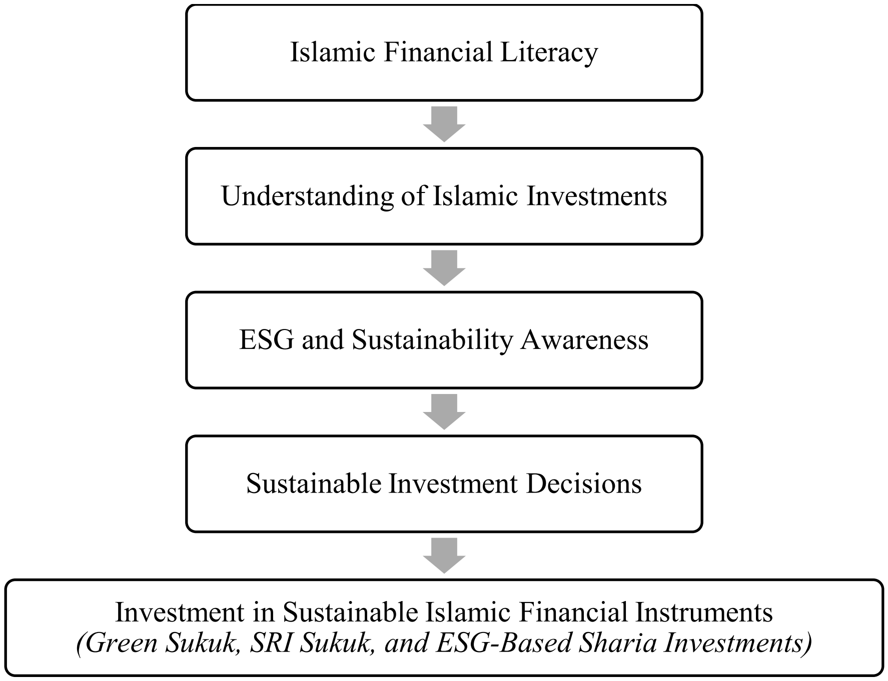

Figure 1. Conceptual Model of the Influence of Islamic Financial Literacy on Sustainable Investment Decisions in Islamic Financial Instruments

The relationship between literacy and sustainability awareness is also supported by studies showing that financial literacy influences investor preferences for green investment and ESG-based investment. Mansyur & Rahim (2025) found that financial literacy contributes to increasing green investment decisions because investors are better able to understand the long-term benefits of sustainable investment. Kelkar (2026) also shows that green financial literacy has a positive effect on investors' tendency to choose investment instruments that support environmental sustainability. In the context of this study, these findings indicate that Islamic Financial Literacy can be a factor that encourages the formation of ESG awareness and sustainability orientation in investment decision-making.

In addition, the relationship between Islamic Financial Literacy and sustainable investment can be explained through the perspective of *maqashid sharia*. *Maqashid sharia* emphasizes the importance of realizing public benefit (*maslahah*) and preventing harm (*mafsadah*) in various aspects of life, including economic and investment activities. Rahim (2024) explains that the concept of *maqashid sharia* provides a normative foundation for the development of green finance and sustainable investment because both aim to create benefits for present and future generations. This finding is reinforced by Sheikh (2025), who affirms that investment criteria based on *maqashid sharia* are closely related to the principles of sustainability and social responsibility.

Based on this synthesis of the literature, this study proposes a conceptual model illustrating that Islamic Financial Literacy influences sustainable investment decisions through two main mechanisms, namely the improvement of Islamic investment understanding and the enhancement of sustainability awareness. Investors with a high level of Islamic financial literacy tend to understand the characteristics of Islamic investment instruments better, understand the socio-economic objectives of Islam, and have higher awareness of environmental and social issues. These conditions then encourage investors to choose investment instruments that are not only aligned with sharia principles, but also support sustainable development goals. Conceptually, this relationship is illustrated in Figure 1.

The conceptual model in Figure 1 shows that Islamic Financial Literacy functions not only as a factor that enhances investors' financial capability, but also as a means of instilling sustainability values that are aligned with sharia principles. Thus, the higher the level of Islamic financial literacy possessed by investors, the greater their tendency to make investment decisions that consider economic, social, and environmental aspects in a balanced manner. This conceptual finding strengthens the argument that the development of Islamic Financial Literacy can become one of the important strategies in encouraging the growth of sustainable investment in Islamic financial instruments.

CONCLUSION

Based on the literature review, this study shows that Islamic Financial Literacy (IFL) plays an important role in shaping sustainable investment decisions in Islamic financial instruments. Islamic financial literacy not only enhances individuals' ability to understand the concepts, principles, and products of Islamic finance, but also strengthens investors' capacity to evaluate the risks, returns, and suitability of an instrument with sharia principles. Various studies reviewed indicate that higher levels of Islamic financial literacy contribute to increased investment interest, adoption of Islamic financial services, and the quality of investment decision-making. Thus, Islamic Financial Literacy can be viewed as a main foundation that influences investor behavior within the Islamic financial ecosystem.

The synthesis of the literature also shows that the relationship between Islamic Financial Literacy and sustainable investment decisions occurs through an increased understanding of sharia values that are aligned with sustainability principles. Investors with a good level of Islamic financial literacy tend to better understand the importance of public benefit, social responsibility, and environmental sustainability as reflected in the concept of *maqashid sharia*. This awareness encourages investors to choose investment instruments that not only provide financial returns but also support sustainable development goals. In this context, various instruments such as green sukuk, sustainability sukuk, SRI sukuk, and ESG-based Islamic instruments become investment alternatives that are able to integrate economic, social, and environmental objectives. Therefore, strengthening Islamic Financial Literacy has the potential to become an effective strategy for increasing public participation in sustainable Islamic investment.

Nevertheless, this study has limitations because it uses a library research approach that relies on previous research findings without directly conducting empirical testing of the relationships among the variables examined. In addition, the scope of the literature used is still limited to publications that were successfully identified and accessed by the researcher, so there may be other findings that have not been accommodated in this review. Therefore, future research is recommended to conduct empirical testing using quantitative or mixed methods to directly measure the influence of Islamic Financial Literacy on sustainable investment decisions. Future studies may also develop the proposed conceptual model by including mediating or moderating variables, such as ESG awareness, religiosity, *maqashid sharia*, risk preference, and digital financial technology factors, in order to obtain a more comprehensive understanding of the factors influencing sustainable investment decisions in Islamic financial instruments.

DECLARATION OF AI AND AI ASSISTED TECHNOLOGIES IN THE WRITING PROCESS

In the preparation of this manuscript, the author(s) utilized ChatGPT to assist with academic writing support, including language refinement, sentence restructuring, coherence improvement, and clarity of expression. All outputs were subsequently reviewed and revised by the author(s), who assume full responsibility for the final content of the publication.

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