

Exploring Investment Governance within Social Security Organization: A Key to SDG Achievement

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DOI: <https://doi.org/10.3126/jsdpj.v1i02.58220>

Abstract

The Employees Provident Fund is a prominent Social Security Organization in Nepal, and it aims to invest the long-term savings it accumulates in various sectors of national and infrastructure development. This investment is intended to create diverse employment opportunities for Nepali citizens, all while maintaining a robust governance mechanism to safeguard the collected contributions, ensuring there are no losses. This strategy aligns with the goal of achieving sustainable development. In order to address the pressing issue of unemployment, which has been consistently raised as a concern by the International Labor Organization, there is an imminent requirement to adapt and enhance the investment framework within the broader Investment Governance concept. This adaptation is necessary to actively generate job opportunities in the areas where unemployment is a significant concern. The main objective of this research is to assess the awareness of current contributors to the Employees Provident Fund regarding Investment Governance and Sustainable Development Goals. Additionally, it aims to validate the developed theory of Investment Governance and its impact on achieving SDGs in practical terms. Furthermore, this study intends to offer insights into the current state of the Employees Provident Fund's investment mechanism, serving as a valuable resource. The result shows that the existing contributors to the Employees Provident Fund in Nepal are highly aware of investment governance. Furthermore, the study has confirmed the accuracy of the developed theory through these tests involving the contributors of the Employees Provident Fund. This fund is a prominent Social Security Organization in Nepal and plays a vital role in focusing its long-term savings on investments in key sectors such as social (health, production, education, and tourism) and the environment. These investments are crucial for achieving Sustainable Development Goals (SDGs), particularly in generating employment, which is a significant aspect of the 8th goal among the

SDGs. Beyond examining investment governance, this study also highlights the importance of further exploration into the role of the Employees Provident Fund in advancing national development.

Keywords: Employees Provident Fund, Investment Governance, Sustainable Development Goals, Unemployment, Social Security Organization, Employment Opportunities

Introduction

The idea of classical capitalism, as described by the Scottish economist and philosopher Adam Smith in "An Inquiry into the Nature and Causes of the Wealth of Nations" viewed humans as skilled laborers in the form of machines. Capitalism, as a system, has been evolving since the 16th century (Smith, 1869). It's often seen as an economic system where private individuals own property and set prices based on supply and demand, aiming to benefit society (Jahan & Mahmud, 2015). However, but as measures which they believe democratic socialism will be sufficient to abolish the misery and evils of capitalism society (Marx & Engels, 1969). Socialism refers to the government ownership of the means of production, planning by the government and income distribution. Socialist means the system under which economic system is controlled and regulated by the government so as to ensure welfare and equal opportunity to the people in a society. Disadvantages of socialism include slow economic growth, less entrepreneurial opportunity and competition and a potential lack of motivation by individuals due to lesser rewards (Marx et al., 1955). Socio-capital theory emerged after socialism where public and private sector co-exist. Socio-capital theory highlight the social and political aspects of human agency and capture the way that shared identity and commitment to social values can contribute to social welfare. The schools of classical and neo-classical economics analyze the development in terms of the efficient allocation of scarce productive resources to support optimal growth, produce and expand the range of goods and services. Instead, new economic approaches explain the development with socioeconomic, political and institutional factors that accelerate economic growth, improve the levels of living and reduce poverty of population, income inequality

between people, and violent crime in society (Coccia, 2019). Social capital is similar to civic virtue and has a close relationship to political participation (Häuberer, 2011).

But political participation depends on relations with political institutions and social capital depends on relationships between people. According to Putnam, societal quality is highest if a tightly-knit network of reciprocal social relationships exists (Häuberer, 2011). Decentralization refers to shifting power from central to lower-level government entities. Administrative decentralization transfers authority to lower-level central government or local authorities. Decentralization is the process by which the agents of central government control are re-located and geographically dispersed. One form of administrative decentralization which transfers responsibilities and authorities to semi-autonomous entities that respond to the central government but are not totally controlled by it (Yuliani, 2004). Article 22 UDHR Dec.10, 1948 states that everyone as a member of society has the right to social security and is entitled to realization, through national effort and international co-operation and in accordance with the organization and resources of each state of the economic, social and cultural rights indispensable for his dignity and the free development of his personality (Mathema, 2012).

As per ISSA-ILO Actuarial guidelines, Part A: Valuation of Social Security Schemes Part B: Operational Management of Social Security Systems (including benefit calculations and determination of factors), Part C: Investment Issues, Part D: Reporting, Communication and Disclosure Part E: Risk Management and Analysis, Part F: Regulatory Issues, Standards and Professional Guidance Part G: Policy and Strategy Issues, Part H: Actuarial Expertise, Staffing and Training within the Social Security Institution (ISSA, 2016). Emblematic of this shift is the World Bank's engagement in the global partnership for Universal engagement in the global partnership for Universal Social protection to achieve the sustainable development goals (UNDESA, 2021). Since 2016, its growing interest in universal basic income. The SDGs were developed at United Nations Conference on Sustainable Development, held in Rio de Janeiro,

Brazil,2012. The purpose was to create a set of global goals, related with the environmental, political and economic challenges that we face as humanity. Among 17 Goals of SDGs developed by UN-GA,2015, the frequent problem that Nepal is facing unemployment problem(decent work) recent year frequently as stated by ILO, Oct, 2018. One of the main SDG is to promote sustained, inclusive and sustainable economic growth, Full and productive employment and Decent work for all. The World Bank has done extensive research on the governance of social protection as it has developed a holistic approach to analyze the governance of social protection through operating variables of Rules, Roles and Control (Bassett et al., 2012).

Michael E. Drew and Adam N. Walk are financial economist, specializing in the areas of investment governance. Both professors are working in the field of pension plan design, outcome-oriented investing and pension finance. They have developed the theory of investment governance through their number of years' experience in research. They have concluded and developed the theory that the Objectives, Policies, Execute (Resources), Implementation and Superintend (Control) are the key independent variables that effect in investment governance for fiduciaries.

Similarly, Naoko Nemoto and Peter J. Morgan are the senior financial economist working at the Asian Development Bank Institute, Japan. They have developed the theory of Environmental, Social and Governance Investment through their research. They have concluded that without Environmental, Social and Governance Investment; sustainable development goals can never be achieved.

In the context of Nepal, several research of social security organization and their schemes, benefits and coverages are studied. Similarly, the study of Inclusive growth for Green Economy and Sustainable Development has been conducted as qualitative analysis by Professor R. K. Shah and published in the Anniversary Paper of Nepal Rastra Bank. These research and studies are near and close to this research paper but not exactly to this research that it intends to perform.

While comparing about the investment governance research done at international level, we can only see the qualitative analysis till the date and no quantitative analysis has been done yet. There is no any study of investment governance for fiduciaries and also no any research regarding Environmental, Social and Governance Investment in achieving sustainable development goals has been conducted in Nepal. Due to this, the new attempt of testing the stated developed theory has been carried out here in Nepal; whether it works properly or not in real life of investing organization through the perception study of contributors of Employees Provident Fund.

Literature Review and Research Gap:

The constitution of Nepal (2015) provisioned social security to its citizen under the section of Fundamental rights and duties. Article 41 provisioned rights for senior citizens, Article 42 specified the right to social justice, Article 43 mentioned right to social security. Similarly, there is the provision of making policy in order to protect the single women, orphans, children, disabled, incapacitated and people who are on the verge of extinction. Article 17 (f) has emphasized the importance of freedom to practice any profession, carry on any occupation and establish and operate any industry, trade and business in any part of Nepal. Article 33 provisioned right to employment and Article 34 provisioned right to labor has strengthened the importance of employment opportunities.

Rijal (2020) conducted a study in “Perception of Commercial banks Employees on Contribution Based Social Security program and found that banking sector employees are less aware about the basic rules and regulations of contribution based social security program. Lesser participation in contribution based social security fund as the average response on lack of information caused less enrollment on SSF have more than (4.05) agree point. Enoff and McKinnon (2011) conducted a study on social security contribution collection and compliance: Improving governance to extend social protection and found that social security administrators may wish to convey to policy makers: even with the best will in the world, improvements in “good” governance in policy

implementation and program delivery cannot compensate for “bad” policy making. Kassem (2021) conducted study on “Roles, Rules and Controls : An analytical Review of the Governance of Social Protection in Egypt” and found that strengthening social safety nets has become one of the government’s most important policy targets. Ministry of Social Solidarity launched the country’s first targeted cash transfer program.

The government also embarked on a number of reform efforts of the Food Subsidy system. Regarding the social security system, the government has passed legislative reforms to the social and health insurance schemes. Katwal (2013) conducted a study on “The Role of Employees Provident Fund to Manage Social Security Scheme in Nepal” and found that vast majority of the work force is still out of the provident fund. This scheme has yet to be extended to unorganized sector, such as agricultural laborers and self-employed persons. Similarly, total return on Provident Fund is less than the inflation rate of pertinent period of the country. Paudel (2013) conducted a study on “The Role of Social Security Benefits to Motivate the Nepalese Civil Servants” and found that the provisions and availability of Social Security Benefit plays vital role in order to motivate civil servants, ensure social justice and protect fundamental rights resulting in the better result.

Social Security Benefit is important to for civil servants during and after their service periods for better standard of life and to ensure commitment towards their job. But in our context, the present provisions are not sufficient to do so thereby indicating the need of further enhancement of such provisions in terms of quality and quantity. Shah (2023) conducted a study on “Inclusive Growth for Green Economy and Sustainable Development” and found that inclusive growth creates the strength in the economy to withstand shocks and growth becomes sustainable in the longer run and final conclusion is that in order to achieve more satisfactory relationship between society and its environment, timely provision should be made for the changes that human activities and competition over use of resources may bring about in order to minimize potential conflict. Sustainable development continuously seeks to achieve social and

economic progress in ways which will not exhaust the Earth's finite natural resources. Policies for inclusive growth are creating and ensuring macro-economic stability, investing in human capital and physical infrastructure, creating and enabling the environment for competition and trade, improving and strengthening the financial system.

Institutional investors must be able to reconcile their actions in terms of ESG issues with their obligations to their members, beneficiaries, policyholders and clients. Institutional investors set their investment strategy to meet their financial commitments: defined benefit pension funds must be able to pay the pensions they have promised and insurance companies must honour the policies they have written. Prudential standards aim to ensure that they will do so. Defined contribution funds and asset managers in most jurisdictions do not have equivalent financial liabilities, but may be held to similar governance standards in terms of safeguarding clients' assets. Understanding ESG issues and the potential impact of ESG factors on both their investment strategy and the broader operating environment is therefore an integral part of good governance for institutional investors (OECD, 2017).

After reviewing related literatures of the social security program, it is concluded that several research outcomes exist in the concerned field throughout the world but rarely in Nepal. Very few researchers find out about social security importance about non-contributory scheme only. So this is the first research regarding perception study of investment governance in social security organization to solve the problem of unemployment/descent jobs as frequently raised problem by ILO in Nepal targeted toward achievement of SDGs through Objective, Policies, Execute (Resources), Implement and Control as independent variables of investment governance from the perception collection of contributors in the EPF contributory based social security organization study in Nepal.

Methods

This research is based on contributor's perception of Employees Provident Fund through close ended questionnaires. The questionnaire has eight

constructs with 35 items likert scale. The face validity of the instrument has been done through extensive literature review and validation through five experts. The pilot study has been done with 30 contributors. Sample size of 300 contributor has been taken with a 5% margin of error and a 90% confidence level with addition of 10% non-response. The collected data ware analyses using R. Reliability testing of this study has been done using Cronbach’s alpha and composite reliability. In each of the construct the both Cronbach’s alpha and composite reliability were more than 0.5 indicating the reliable constructs. Similarly the validity of the constructs were measured by using average variance extraction (AVE) in each of the construct the AVE value is more than 0.89 indicating the high validity of the construct.

Findings and Discussions

Table 1 provides a comprehensive overview of the demographic composition of the informants, including their gender, marital status, educational background, and age distribution within the sample of 300 contributors.

Table 1: Demographic Characteristics of Informants

| Gender | Number of contributors | Percent |
|---------------|-------------------------------|----------------|
| Male | 221 | 73.7 |
| Female | 79 | 26.3 |
| Total | 300 | 100 |

| Marital Status | Number of contributors | Percent |
|-----------------------|-------------------------------|----------------|
| Married | 195 | 65.0 |
| Unmarried | 84 | 28.0 |
| Widow/Widower | 12 | 4.0 |
| Divorced | 9 | 3.0 |

| Total | 300 | 100 |
|---------------------------|-------------------------------|-------------------|
| Educational Status | Number of contributors | Percent |
| Plus two | 50 | 16.7 |
| Bachelor | 107 | 35.7 |
| Masters and above | 132 | 44.0 |
| Others | 11 | 3.7 |
| Total | 300 | 100 |
| Age | Number of Informants | Percentage |
| 20-30 | 62 | 20.7 |
| 30-40 | 107 | 35.7 |
| 40-50 | 99 | 33.0 |
| 50-60 | 32 | 10.7 |
| Total | 300 | 100 |

In this sample of 300 informants, the majority, comprising 73.7%, are male, totaling 221 contributors. This indicates a higher representation of males in the study. Meanwhile, female contributors make up 26.3% of the sample, with a total of 79 individuals. Regarding the marital the largest group, constituting 65.0% of the sample (195 contributors), is composed of married individuals. This indicates that a significant portion of the informants is in a marital partnership.

28.0% of the informants, representing 84 contributors, are unmarried. A smaller segment, making up 4.0% of the sample, consists of widows and widowers, comprising 12 contributors. Furthermore, 3.0% of the informants are divorced, with a total of 9 contributors in this category. The educational background of the informants is quite diverse. Approximately 16.7% of the sample (50 contributors) have completed their education up to

the "Plus two" level. A larger group, representing 35.7% of the informants (107 contributors), possesses a Bachelor's degree. This suggests that a significant portion of the participants has attained undergraduate education. An impressive 44.0% of the informants, totaling 132 individuals, hold a Master's degree or higher. This indicates a substantial number of highly educated individuals in the sample. The age distribution among the informants varies across different age brackets. Notably, 20.7% of the sample, comprising 62 contributors, falls within the 20-30 age range. This indicates a presence of younger individuals in the study. The largest age group in the sample, constituting 35.7% (107 contributors), falls within the 30-40 age range. Furthermore, 33.0% of the informants, totaling 99 contributors, are in the 40-50 age range. Lastly, 10.7% of the sample, consisting of 32 contributors, falls within the 50-60 age range. This suggests the presence of a smaller yet notable segment of informants in their fifties.

Table 2: Knowledge on investment governance and sustainable development goal

| Knowledge about investment governance | Male | Female | Total |
|--|-------------|---------------|--------------|
| Yes | 204 | 62 | 266 |
| No | 17 | 17 | 34 |
| Total | 221 | 79 | 300 |

| Knowledge about sustainable development goals | Male | Female | Total |
|--|-------------|---------------|--------------|
| Yes | 204 | 62 | 266 |
| No | 17 | 17 | 34 |
| Total | 221 | 79 | 300 |

Among 300 contributors selected randomly, 266 were known about investment governance and rest of them were unknown about investment governance. There were 204 males and 62 females who were known about

investment governance. 17 males and 17 females were unknown about investment governance. Among 300 contributors, 266 were known about Sustainable Development Goals. And, 34 were unknown about Sustainable Development Goals. Although substantial portion demonstrated awareness of both "investment governance" and "Sustainable Development Goals, a notable subset of contributors still were unfamiliar with the concept of Sustainable Development Goals. This suggests that while a majority had knowledge in these areas, there remains a need for increased awareness and understanding of Sustainable Development Goals among some contributors.

Validity and Reliability of the constructs

The indicator reliability, or factor loadings of the latent variables, should be greater than or equal to 0.5 (Sachin & Rajesh, 2022) but the best value is greater than or equals to 0.7 (Hulland, 1999). Cronbach's alpha provides a measure of the scale's internal consistency of variation in the variables and its ideal value for consistency of the construct is over 0.7 (Pradhan, 2017). The another measure for internal consistency is composite reliability and the construct is said to be reliable if its value is more than 0.7 (Peterson & Kim, 2013). The average variance extracted (AVE) was used to test the convergent validity. It is suggested that the AVE value should be more than 0.5, indicating that the indicators account for at least 50% of the variance (Pradhan et al., 2023). However, George and Mallery (2019) advocate a multi-tiered approach that includes: "> 0.9 – Excellent, > 0.8 – Good, > 0.7 – Acceptable, > 0.6 – Doubtful, > 0.5 – Poor, and > 0.5 – Unacceptable".

Table 3 summarizes a comprehensive evaluation of validity and reliability within the context of construct measurement. The data originates from a factor analysis endeavour, where latent variables underpin a range of items seeking to gauge different dimensions of interest. It is a critical endeavour in research, as accurate measurement ensures the credibility of findings and conclusions. The results indicate that all the constructs in the study are valid and reliable measures. They effectively capture the intended concepts, exhibit strong internal consistency reliability, and meet the

criteria for convergent validity, ensuring that the data collected from these constructs is trustworthy for analysis.

Table 3: Measurement of validity and reliability

| Construct | Items | loading | Cronbach's Alpha | Composite Reliability | AVE |
|--|--------------|----------------|-------------------------|------------------------------|------------|
| Satisfaction | Sat1 | 0.926 | 0.969 | 0.976 | 0.890 |
| | Sat2 | 0.927 | | | |
| | Sat3 | 0.959 | | | |
| | Sat4 | 0.956 | | | |
| | Sat5 | 0.949 | | | |
| Usefulness | Use1 | 0.944 | 0.974 | 0.980 | 0.906 |
| | Use2 | 0.953 | | | |
| | Use3 | 0.944 | | | |
| | Use4 | 0.962 | | | |
| | Use5 | 0.958 | | | |
| Social Environmental Investment | SEI1 | 0.969 | 0.980 | 0.987 | 0.962 |
| | SEI2 | 0.990 | | | |
| | SEI3 | 0.983 | | | |
| New Objective | NO1 | 0.945 | 0.985 | 0.988 | 0.943 |
| | NO2 | 0.981 | | | |
| | NO3 | 0.986 | | | |
| | NO4 | 0.978 | | | |
| | NO5 | 0.965 | | | |
| New Policy | NP1 | 0.989 | 0.993 | 0.994 | 0.972 |
| | NP2 | 0.984 | | | |
| | NP3 | 0.991 | | | |
| | NP4 | 0.983 | | | |
| | NP5 | 0.982 | | | |
| New Resources | NR1 | 0.986 | 0.990 | 0.993 | 0.971 |
| | NR2 | 0.989 | | | |
| | NR3 | 0.990 | | | |
| | NR4 | 0.978 | | | |
| New Implementation | NI1 | 0.975 | 0.983 | 0.987 | 0.951 |
| | NI2 | 0.971 | | | |
| | NI3 | 0.979 | | | |
| | NI4 | 0.976 | | | |
| New Control | NC1 | 0.978 | 0.986 | 0.990 | 0.961 |
| | NC2 | 0.982 | | | |
| | NC3 | 0.981 | | | |
| | NC4 | 0.979 | | | |

Satisfaction:

The construct of "Satisfaction" is evaluated based on the five items. These items effectively measure satisfaction, as indicated by their strong

loadings, which range from 0.926 to 0.959. These high loadings suggest that these items are indeed representative of the satisfaction construct. In the same way the internal consistency of this construct is robust, with a high Cronbach's Alpha value of 0.969. This demonstrates that the items within this construct are highly correlated and consistently measure satisfaction. Additionally, the Composite Reliability value of 0.976 and the Average Variance Extracted (AVE) of 0.890 meet the criteria for reliability and convergent validity, respectively. This means that the construct reliably measures satisfaction, and there is substantial agreement among the items within this construct. Most of the surveyed contributors (75.20%) are not satisfied with how the existing plans, policies, resources, and methods are being used to work towards the Sustainable Development Goals (Table 3). They likely believe that changes or improvements are needed in these areas to make progress towards the SDGs more effective or aligned with their expectations.

Usefulness:

The "Usefulness" construct is assessed using the items Use1, Use2, Use3, Use4 and Use5. These items demonstrate strong loadings, ranging from 0.944 to 0.962, indicating their effectiveness in capturing the concept of usefulness. These high loadings suggest that the items align well with the intended construct. The construct's Cronbach's Alpha value is 0.974, signifying that the items within this construct consistently measure usefulness. Moreover, the Composite Reliability value of 0.980 and the AVE of 0.906 meet the criteria for reliability and convergent validity, respectively. This confirms that the construct effectively measures usefulness, and there is substantial agreement among its items. very large percentage of the surveyed contributors (91.53%) believe that it would be beneficial and useful to introduce new objectives, policies, resources, implementation methods, and control mechanisms within the EPF in order to improve its effectiveness in working towards the Sustainable Development Goals. These contributors likely see these changes as necessary or advantageous for better alignment with SDG-related efforts.

Social Environmental Investment:

The "Social Environmental Investment" construct is evaluated using three items. These items exhibit strong loadings, with the highest loading at

0.990. These loadings suggest a strong alignment with the intended construct. Internal consistency within this construct is high, with a Cronbach's Alpha value of 0.980, highlighting that the items consistently measure social environmental investment. The Composite Reliability value of 0.987 and the AVE of 0.962 meet the criteria for reliability and convergent validity, confirming the construct's reliability in measuring social environmental investment. A significant majority of the surveyed contributors (93.11%) believe that the EPF should invest in social and environmental sectors as part of its efforts to achieve Sustainable Development Goals. Which highlights the importance of governance and policies governing these investments in line with established theoretical principles, suggesting that well-structured investment in these areas is crucial for progress toward sustainability goals.

New Objective, New Policy, New Resources, New Implementation, and New Control:

Each of these constructs (New Objective, New Policy, New Resources, New Implementation, and New Control) is evaluated based on their respective items. These items exhibit strong loadings, ranging from 0.945 to 0.991, indicating their effectiveness in capturing the intended concepts. Internal consistency within these constructs is robust, with high Cronbach's Alpha values (ranging from 0.985 to 0.993), demonstrating that the items consistently measure their respective constructs. Furthermore, the Composite Reliability values (ranging from 0.988 to 0.994) and the AVE values (ranging from 0.943 to 0.972) meet the criteria for reliability and convergent validity for all of these constructs. This confirms that each construct reliably measures new objectives, policies, resources, implementation, and control, respectively. The majority of the 300 contributors are in favor of making significant changes in various aspects of their organization's approach to sustainable development. This includes setting new investment objectives in areas such as healthcare, production, education, and tourism, as well as the environmental sector. A high percentage, around 92.7%, find this acceptable.

Table 4: Perception of contributors towards different constructs

| Constructs | Agreement | Neutral | Disagreement |
|--|------------------|----------------|---------------------|
| Satisfaction | 8.93 | 15.87 | 75.20 |
| Usefulness | 91.53 | 3.53 | 4.93 |
| Social and Environmental Investment | 93.11 | 3.67 | 3.22 |
| New objective | 92.73 | 3.47 | 3.80 |
| New Policy | 92.47 | 4.00 | 3.53 |
| New Resources | 92.75 | 4.25 | 3.00 |
| New Implementation | 92.58 | 4.00 | 3.42 |
| New control | 93.00 | 3.92 | 3.08 |

Additionally, a similarly large percentage, approximately 92.5% to 93%, express agreement with adopting new policies, resources, implementation methods, and control mechanisms. These responses collectively indicate strong support among the contributors for a comprehensive overhaul of their organization's strategies and approaches to better align with their goals related to sustainable development.

Conclusion

The current status of Employees Provident Fund is in good condition as it is able to collect long term savings from the compulsory provision of law in provident fund deduction and pension fund deduction from the salary of employees and from the employer side. Reserves and Surplus are being used in social security distribution and loans for the welfare of contributors. Similarly, Investment in some national projects is being done but these actions are not sufficient to achieve SDGs so New Objectives, New Policies, New Resources, New Implementation and New Control regarding social and environmental investment must be done as per the perception of contributors.

Investment governance is the mechanism of Objectives, Policies, Execute (Resources), Implementation and Control which was claimed by theory

developer and also claimed that ESG investment is necessary to achieve SDGs.

Most of the contributors were well known about Investment governance and their perception study showed that there is strong support to New Objectives, New Policies, New Resources, New Implementation and New Control in the investment governance of social security organization to achieve SDGs through Social and Environmental investment.

It can be concluded that the awareness level of contributors regarding the investment governance and SDGs are high and it is proved that the developed theory is correct and hence verified by these quantitative tests conducted among the contributors of Employees Provident Fund as one of the leading Social Security Organization of country Nepal whose long term saving is in rising trend must be focused toward the investment in Social (Health, Production, Education and Tourism) sector and Environmental sector to achieve SDGs through employment generation as one of the most important 8th goal among SDGs .

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