

Original Article

# Research on the Financial Monitoring System for State-owned Enterprises in Vietnam

<sup>1</sup>Ph.D. Mai Thi Dung, <sup>2</sup>Nguyen Phan Anh Vu

<sup>1</sup>University of Labour and Social Affairs.

<sup>2</sup>Hanoi-Amsterdam Highschool for Gifted.

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**Abstract:** *In Vietnam, state-owned enterprises are an important type of business, with many large-scale entities operating in various sectors and industries. The differences between State-Owned Enterprises (SOEs) and private enterprises, as well as the practices of SOEs in Vietnam, have raised numerous issues and challenges in terms of management and oversight. The authors of this study explore the financial monitoring system of SOEs in Vietnam through (i) supervisory bodies, (ii) the content of supervision, and (iii) methods of supervision. Based on this, the article proposes two groups of solutions: (i) policy and legal solutions and (ii) organizational solutions for implementing financial oversight of SOEs.*

**Keywords:** *Financial Monitoring System, State-Owned Enterprises, Vietnam.*

## I. RAISING THE ISSUES

Despite widespread privatization in recent years, governments worldwide continue to own and operate state-owned enterprises (SOEs) in crucial sectors like finance, infrastructure, manufacturing, energy, and natural resources (WB, 2014). This presence persists and expands in high-income countries, emerging market economies, and many low- and middle-income countries. Globally, many SOEs are ranked among the world's largest companies, investors, and market participants.

In Vietnam, the state economic sector, typified by economic groups and state-owned corporations, plays a significant role (ADB, 2020). To maintain its dominant role in the economy, the state economic sector needs to operate efficiently and lead the development of private enterprises and economic organizations from various sectors (Ha, N. T. T, 2021). In recent years, the SOE sector has been restructured, reduced in size, and undergone equitization, divestment, and privatization. As of now, although they represent only about 0.08% of the total number of operating businesses, SOEs still hold significant economic resources, accounting for 25.78% of the total capital of the entire business sector. The state economic sector employs 1.1 million workers, constituting 7.3% of the total labor force. Although SOEs' contributions to the state budget have decreased in the past year, they still constitute an important and stable source of revenue for the state budget (Anh, N. H, 2022).

However, the business performance and contribution of SOEs do not yet align with the status and level of state attention and investment. Compared to non-state enterprises and foreign-invested enterprises (FDI), the quality, efficiency, and contribution to GDP of SOEs remain lower, reaching 29% of GDP in 2022 (GSO, 2023). Vietnam has not clearly defined the role of SOEs to the dominant role of the state economy, leading to scattered investments, a lack of a healthy legal framework, clear financial discipline, and inadequate accountability and transparency. A financial monitoring system for SOEs is essential to enhance the effectiveness of SOEs' operations and make necessary adjustments promptly. Despite regulations on the subject, there are still many deficiencies in the practical financial monitoring of SOEs in Vietnam. Therefore, the authors conducted the study on the topic "Research on the financial monitoring system of state-owned enterprises in Vietnam."

## II. THEORETICAL BASIS

### A) Definition

#### a. State-Owned Enterprises

The Enterprise Law No. 59/2020/QH14 has expanded the definition of State-Owned Enterprises (SOEs) and classified them into two groups based on the state ownership ratio. According to Article 88 of the 2020 Enterprise Law, "SOEs are (i) enterprises in which the State holds 100% of the charter capital, and (ii) enterprises in which the State holds more than 50% (but less than 100%) of the charter capital or the total voting shares". This definition is broader than the one in the 2014 Enterprise Law, which defined SOEs as limited liability companies with one member wholly owned by the state.

From this definition, some characteristics used to classify and identify SOEs include:

- Regarding ownership and management, SOEs are economic organizations with over 50% to 100% of their charter capital owned by the state.



- Regarding the form of business organization, State-owned enterprises can be organized as corporations, joint-stock companies, or limited liability companies.
- Regarding the main production and business areas: The law does not restrict SOEs' production and business areas. However, through SOEs, the state carries out the function of providing goods and services that the private sector may not wish to undertake due to low profitability, the requirement of significant capital, slow capital recovery, or vital areas related to security, national defense, and community interests.
- Regarding the enterprise's responsibility: State-owned enterprises are legal entities with limited liability for all production and business activities within the scope of state-owned capital allocated.
- The Role of SOEs: According to the 5th Central Resolution, Vietnam no longer believes that SOEs must dominate the market share for essential products. Research by Ha, N. T. T. (2021) shows that the role of state-owned enterprises is to act as the economic organization of the state, fulfilling the state's functions, producing goods, providing services for social needs, ensuring market stability, thereby creating employment and income for the people, ensuring social stability, and leading non-state economic entities (private enterprises, collectives, individual business households) to develop.

#### **b. Financial Supervision of State-Owned Enterprises**

With state ownership ranging from 50% to 100%, SOEs are closely associated with the state as they are economic organizations where the state invests a significant portion of capital and assets, tightly regulated by state authorities at various levels. Financial supervision is a crucial and necessary aspect of SOE operations in this context.

"Financial supervision involves monitoring, inspecting, examining, and assessing financial issues, as well as compliance with financial policies and laws within the enterprise" (Government, 2015). Financial supervision is not merely about monitoring; it also involves close ties with inspection and examination. While monitoring allows management to grasp the situation, the progress of task execution, and its results, inspection and examination help management detect and correct mistakes and shortcomings promptly, ensuring efficient operations and compliance with legal regulations.

#### **B) Goals of Financial Supervision of SOEs**

The goals of financial supervision of SOEs include:

- Assessing compliance with regulations concerning the scope, procedures, authorities, and the effectiveness of state capital investment in the enterprise. This is a general objective for all entities conducting financial supervision, not limited to SOEs. Understanding the real situation of the enterprise allows management to make timely decisions, thoroughly assess the financial situation and the effectiveness of the enterprise's operations to identify problems and find ways to overcome them, complete business plans and public interest tasks, and improve production efficiency and business competitiveness.
- Assisting the State and the state ownership representative agencies in promptly identifying weaknesses in the business activities of SOEs, issuing warnings, and recommending corrective measures.
- Ensuring transparency in the financial situation of state-owned enterprises.
- Enhancing the responsibility of enterprises in complying with legal regulations in the management and use of state capital and assets for business and production. Due to the clear separation of ownership and management rights regarding state capital, there are potential risks of misappropriation and misuse of state capital. Therefore, financial supervision is essential to ensure capital is correctly used (Chien, V. M., 2022).

#### **C) Financial Supervision System of SOEs**

The effectiveness of financial supervision for SOEs is determined in part by the monitoring mechanisms and the financial supervision system used for these enterprises. The monitoring mechanisms and the financial supervision system depend on each country's political structure and economic model (OECD, 2018). The financial supervision of SOEs is expressed through various financial indicators calculated based on standardized financial reports. These indicators are traditional measures of SOE financial performance (WB, 2014).

There are various financial indicators commonly used to monitor financial performance worldwide, falling into several categories:

##### **a. General financial indicators**

- Profitability indicators include profit, revenue, profit on equity, and net income divided by equity.
- Return on assets, net income divided by total assets.
- Return on investment, profit divided by capital invested.
- Liquidity indicators measure a company's ability to pay off debts, such as debt-to-equity and liquidity ratios.

b. SOE-specific financial indicators

Budget allocation indicators that include government transactions related to:

- New government investment
- Government credit injections or support
- Subsidies

In Vietnam, the financial supervision system of SOEs is fully regulated concerning the entities, content (including several financial indicators), and methods of supervision.

**Firstly, the supervisory entities:** SOEs are supervised by the state ownership representative agencies and financial authorities. According to Article 8 of Decree 87/2015/ND-CP, it is regulated as follows:

- State ownership representative agencies: The ministry responsible for managing the sector coordinates with the Ministry of Finance to conduct financial supervision and assess the effectiveness of production and business operations for parent companies, one-member limited liability companies independently established or managed by the ministry. At the local level, provincial People's Committees perform financial supervision and assess the effectiveness of production and business operations for parent companies, one-member limited liability companies independently established or managed by provincial People's Committees.
- Financial authorities: The Ministry of Finance cooperates with the state ownership representative agencies to conduct financial supervision for parent companies, one-member limited liability companies independently established or managed by the ministry. They also aggregate government reports on the financial supervision results of state-ownership representative agencies, economic group boards, and state-owned general corporations. At the local level, the Finance Department of provinces and cities assists provincial People's Committees in conducting financial supervision, assessing the effectiveness of production and business operations and aggregating reports on financial supervision results for enterprises established by provincial People's Committees.

**Secondly, the content of supervision:** Article 9 of Decree 87/2015/ND-CP defines six areas of financial supervision for SOEs:

- Supervising capital preservation and development.
- Supervising the management and utilization of state capital and assets in enterprises.
- Supervising the results of production and business operations.
- Supervising compliance with laws on investment, management, and use of state capital in enterprises.
- Promulgating and implementing financial management regulations for enterprises.
- Supervising the restructuring of state capital invested in enterprises, restructuring the capital of enterprises investing in subsidiaries and affiliated companies, and supervising the implementation of salary, remuneration, bonuses, responsibility allowances, and other rights and interests of laborers, enterprise managers, controllers, and representatives of state capital holders as regulated by labor law.

In each area, financial indicators are defined to measure the financial results of the SOEs

**Thirdly, the monitoring methods:** According to Article 11 of Decree 87/2015/ND-CP, financial monitoring of state-owned enterprises is carried out through various methods, including:

- Direct monitoring is the act of inspecting and directly auditing state-owned enterprises.
- Indirect monitoring involves monitoring and examining the state-owned enterprises' financial reports, statistics, and other reports stipulated by the law and the representing ownership agency.
- Pre-monitoring involves assessing and examining the feasibility of short-term and long-term plans, investment projects, fundraising plans, and other projects and plans of state-owned enterprises.
- In-monitoring includes monitoring and inspecting the implementation of business plans, adherence to legal regulations, and compliance with the ownership agency's requirements throughout the execution of plans and projects.
- Post-monitoring is the process of examining the results of state-owned enterprises' activities based on periodic reports, their compliance with the law and the enterprise's charter, as well as adherence to legal regulations.
- For state-owned enterprises that are not efficient and show signs of financial instability, special financial monitoring is required. This involves applying strict financial monitoring procedures, with competent authorities overseeing and rectifying the situation.

In particular, pre-monitoring and in-monitoring focus on detecting financial risks promptly, mitigating financial management constraints, and providing alerts and solutions. With these regulations, the organization of state-owned enterprise monitoring is implemented cohesively and comprehensively.

### III. RESEARCH METHODOLOGY

#### A) Data Collection Method

The authors used a literature review method to organize the theoretical basis of state-owned enterprises and the financial monitoring system of state-owned enterprises. This included subjects of monitoring, monitoring content, monitoring methods, financial monitoring organization of state-owned enterprises, and legal regulations serving the financial monitoring activities of state-owned enterprises.

This article provides an overview of state-owned enterprises' financial and financial monitoring theories. These studies are conducted both domestically and abroad and were selected from databases such as Scopus, the online libraries of the OECD, the World Bank, specialized journals, and a research sample consisting of 20 articles published from 2014 to 2023. The main observations were analyzed thematically through the synthesis, description, and narrative methods.

To investigate the current situation of financial monitoring of state-owned enterprises in Vietnam, the research team focused on assessing the status of state-owned enterprises in Vietnam, analyzing the monitoring, inspection, audit, and evaluation of financial issues and compliance with financial policies and laws. The article collects data on the number of state-owned enterprises, the operational status of state-owned enterprises, and the monitoring and evaluation of financial issues for state-owned enterprises. This data was collected from domestic and foreign scientific books, scientific journals, aggregated data from the General Statistics Office, the Ministry of Finance, the Ministry of Planning and Investment, the websites of state-owned enterprises and groups, the websites of local authorities, and current legal documents related to the financial monitoring activities of state-owned enterprises.

At present, in Vietnam, there are differences in the data published by the General Statistics Office and the Ministry of Finance: The General Statistics Office publishes data on state-owned enterprises at both central and local levels; the Ministry of Finance publishes data that only includes state-owned enterprises at the central level. Furthermore, the most recent statistical yearbook for 2023 of the General Statistics Office provides detailed data up to 2021. Therefore, most of the data in this study is presented from 2019 to 2021, with some data updated to 2022.

The authors synthesized and selected information relevant to the research content from the collected data. They used a combination of descriptive statistical methods to clarify the current situation. Along with that, the method of synthesis analysis was used to analyze, compare, and contrast legal regulations, results, and existing limitations in the financial monitoring system of state-owned enterprises in Vietnam.

#### B) Data Processing Method

The collected data was compiled, calculated, and presented in tables. To assess and analyze the data, the article also used comparison and analysis methods to evaluate the results of financial monitoring of state-owned enterprises in Vietnam. From this, the research team proposed solutions to enhance financial monitoring activities for state-owned enterprises.

### IV. THE CURRENT SITUATION OF FINANCIAL MONITORING OF STATE-OWNED ENTERPRISES IN VIETNAM

#### A) Overview of State-Owned Enterprises in Vietnam

In Vietnam, in terms of quantity, through various efforts to innovate, reorganize, and restructure, the number of state-owned enterprises (SOEs) has significantly decreased, and the scope of their activities has been narrowed compared to the past. The change in the criteria for classifying SOEs has led to a trend of reducing the number of sectors and fields that maintain 100% state ownership. Compared to the total number of enterprise types in the national economy, SOEs only account for 0.3% of the total number of enterprises in the country (GSO, 2021). Thanks to the government's efforts to reduce the scope of this sector through equitization and restructuring, the number of SOEs and their share in employment has significantly decreased in recent years (OECD, 2014).

**Table 1: Number of Active SOEs with Business Results**

State-owned enterprise	2019	2020	2021
100% state-owned capital	1014	918	877
Over 50% of state-owned capital	1095	1045	1029
Total	2109	1963	1906

*Source: GSO, 2023*

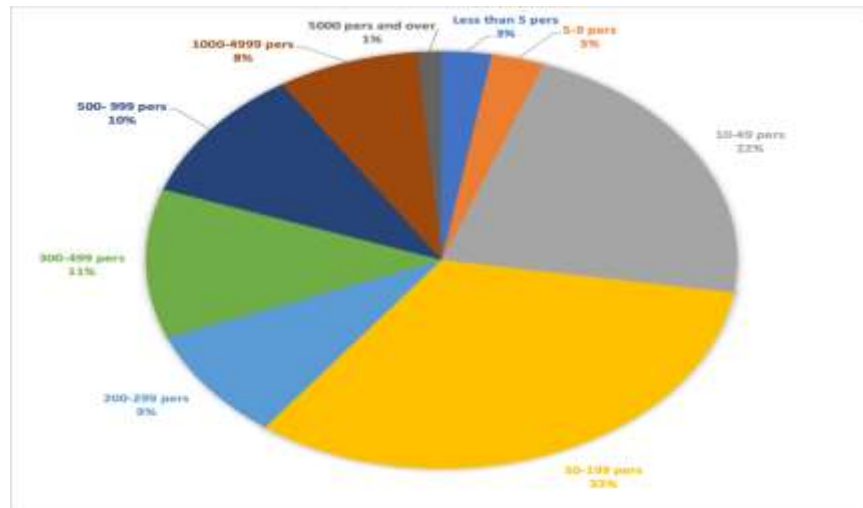
According to the new 2020 Law on Enterprises definition, enterprises in which the state holds less than 50% of the charter capital are classified as private enterprises. As a result of the equitization and restructuring of state-owned enterprises (SOEs), the number of SOEs decreased from 2,109 enterprises in 2019 to 1,906 enterprises in 2021. Among them, 877

enterprises are 100% state-owned (accounting for 46%), and 1,029 enterprises are state-owned with more than 50% of charter capital (accounting for 54% of the total SOEs) (GSO, 2023). Additionally, according to the Ministry of Planning and Investment (2022), a significant number of approximately 1,100 provincial and centrally managed SOEs are governed by the respective local authorities at the provincial level (not mentioned in this article). By type of SOEs in 2021...

Although the number of SOEs has decreased, these enterprises dominate most economic business sectors and have close relationships with the government (OECD, 2014). SOEs currently operate in crucial areas for economic development, such as energy, telecommunications, finance, and credit (Ha, NTT, 2021). The SOE sector plays a dominant and leading role in essential sectors of the economy. State-owned power plants supply about 87% of electricity to society in the energy sector, hold an 87% retail market share in the petroleum sector, and have a 100% market share in crude oil exploration, drilling, processing, and production (Ministry of Planning and Investment, 2023). SOEs also play a vital role in many critical economic infrastructure sectors, such as telecommunications, information technology, transportation and logistics infrastructure, and banking and finance, providing essential economic inputs (Ministry of Planning and Investment, 2023).

While the private sector in Vietnam primarily consists of small and medium-sized enterprises (SMEs), SOEs tend to be medium and large enterprises. When looking at the labor force scale within SOEs, the noteworthy point is that a significant proportion of SOEs have a large labor force scale. This trend starkly contrasts the labor force scale of non-state enterprises (GSO, 2023).

**Figure 1: Number Of Active State-Owned Enterprises With Business Outcomes As Of December 31, 2021, By The Size Of Employees.**



**Source:** GSO, 2023

The data in Figure 1 shows that State Owned Enterprises (SOEs) are primarily large-scale enterprises. The number of enterprises with a workforce of fewer than 100 employees accounts for only 7%; those with a workforce of 10-49 employees make up 22%, and those with a workforce of 50-199 employees represent 33%. Notably, very large enterprises with over 1,000 employees account for 9% of the total number of SOEs. Despite comprising just over 10% of the total number, the parent companies of conglomerates and large-scale SOEs hold 92% of the total assets, 93% of the total revenue, and 92% of the pre-tax profit of all SOEs nationwide (Ministry of Planning and Investment, 2023).

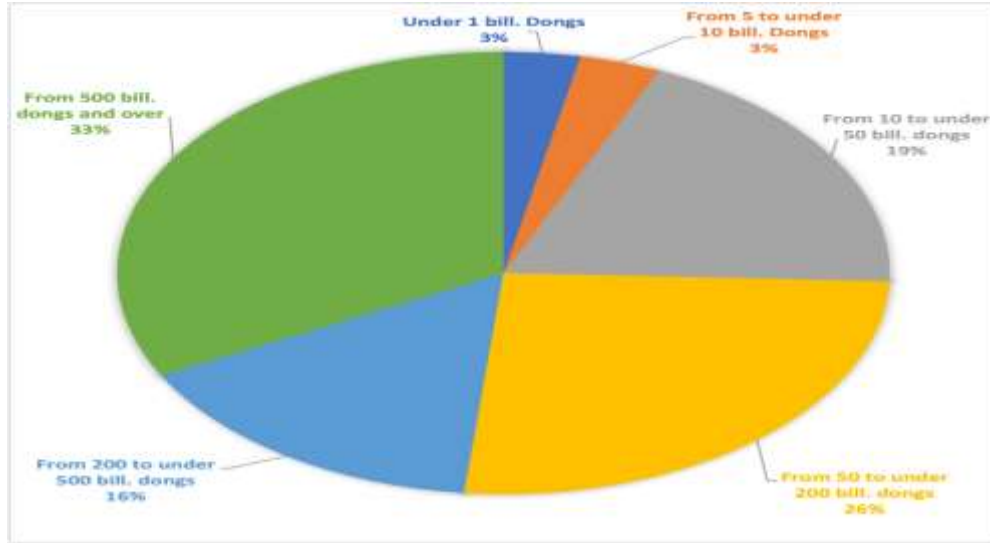
#### **B) Financial Performance of State-Owned Enterprises in Vietnam**

In general, SOEs in Vietnam have made significant efforts to accomplish their assigned tasks and have achieved many positive outcomes in crucial sectors of the economy. These results are reflected through various financial indicators as follows:

##### **a. In terms of capital investment:**

In 2022, the realized capital investment in the State sector reached 304.961 trillion VND (GSO, 2023). However, conglomerates and holding companies have not emphasized investments in sectors that provide leadership and drive. These entities have not effectively coordinated, linked, or leveraged the strengths of enterprises in various sectors to undertake significant and priority projects, especially regarding capital allocation for these projects. Specifically, the results of capital investment in SOEs, classified by the scale of investment, are as follows:

**Figure 2: Number of active State-owned enterprises having business outcomes as of December 31, 2021, by the size of capital**



Source: GSO, 2023

The majority of the investment capital in State-Owned Enterprises (SOEs) falls under the medium and large-scale categories. SOEs currently conducting business with an investment capital of less than 10 billion Vietnamese dong account for 25% of the total number of enterprises. Examining the types of SOEs, enterprises with 100% state capital control approximately 7% of the total assets and 10% of the equity of all businesses in the market, representing about 25.78% of the total production and business capital (Ministry of Planning and Investment, 2023).

#### b. Fixed assets and long-term financial investments of SOEs

As of the end of 2022, the total assets of SOEs nationwide reached 3,821.459 trillion Vietnamese dong, marking a 4% increase compared to 2021 (Ministry of Finance, 2023). Enterprises with 100% state capital ownership accounted for 23.4% of the total value of fixed assets and long-term financial investments of these enterprises.

**Table 2: Value of fixed assets and long-term financial investments of SOEs.**

State-owned enterprise	2019	2020	2021
100% state-owned capital	2321,4	1657,6	1479,8
Over 50% of state-owned capital	985,3	984,8	1037,3
Total	3306,7	2642,3	2517,1

Source: GSO, 2023

The value of fixed assets and long-term financial investments of State-Owned Enterprises (SOEs) in 2021 accounted for 15.42% of the total value of assets across all types of enterprises (General Statistics Office, 2023). Due to the increasing scale of fixed assets and long-term financial investments, SOEs contribute around 28% to the state budget revenue and employ approximately 0.7 million workers, representing about 7.3% of the total labor force in the enterprise sector (Ministry of Planning and Investment, 2023).

#### c. Revenue and pre-tax profit

As of June 30, 2023, the total revenue of state-owned enterprises nationwide was 689.534 trillion Vietnamese dong and is expected to reach 1,416.880 trillion dong for the whole year, which is a 4% increase compared to the set plan. Additionally, they will contribute 128.821 trillion dong to the state budget, marking a 7% increase compared to the planned amount (Ministry of Planning and Investment, 2023).

**Table 3: Business outcomes of SOEs (compared to other types of enterprises) in 2021**

Unit: billion VND

Business Type	Annual Average Capital for Production	Net Revenue from Production and Business	Profit before Tax
State-owned Enterprises Including	10625,3	3379,3	260193
100% State-owned Enterprises	4641,1	2015,0	140840

<i>Enterprises with over 50% State ownership</i>	5984,2	1364,3	119353
<b>Private Enterprises</b>	<b>30193,0</b>	<b>17577,9</b>	<b>492367</b>
<b>Foreign-Invested Enterprises</b>	<b>10086,5</b>	<b>9450,1</b>	<b>524286</b>

Source: GSO, 2023

In 2021, the gross revenue of state-owned enterprises (SOEs) engaged in production and business activities reached 3.4 quadrillion Vietnamese dong, a decrease of 1.7% (with SOEs with 100% state capital experiencing an 8.2% decrease compared to 2020). According to the Ministry of Finance's report (2023), 12% of SOEs incurred losses, resulting in a total loss of 30.134 trillion dong. Furthermore, 23% of total SOEs reported cumulative losses, amounting to 76.065 trillion dong in 2022. Some projects incurred significant cumulative losses and experienced losses continuously for several years. The restructuring methods for certain projects were found to be ineffective. There were delays in the progress of some investment projects, and the settlement of basic construction projects was prolonged, reducing resource utilization efficiency. The promotion of new investment projects by state-owned enterprises in recent years has been insufficient.

#### d. Average labor income

From 2019 to 2022, state-owned enterprises attracted 1.1 million workers (with SOEs having 100% state capital attracting 0.7 million workers), representing 7.9% of the total workforce and decreasing by 23.4% compared to the previous period.

**Table 4: Average Monthly Compensation Of Employees In Active State-Owned Enterprises Having Business Outcomes**  
Unit: Thousand VND

Types of enterprise	2019	2020	2021
<b>State-owned enterprise</b>	<b>14210</b>	<b>15330</b>	<b>15821</b>
- 100% state-owned capital	13835	15505	15845
- Over 50% state-owned capital	14766	15089	15791
<b>Non-state enterprise</b>	<b>8312</b>	<b>8272</b>	<b>9034</b>
<b>Foreign investment enterprise</b>	<b>10066</b>	<b>10516</b>	<b>11224</b>

Source: GSO, 2023

The average monthly income per worker varies by the type of enterprise in Vietnam. State-owned enterprises (SOEs) have the highest average monthly income per worker at 15.8 million Vietnamese dong, followed by non-state enterprises at 9.034 million dong and foreign-invested enterprises (FDI) at 11.224 million dong. In terms of labor efficiency, non-state enterprises have the highest labor productivity, reaching 18.9 times, followed by state-owned enterprises with 18.5 times, while FDI enterprises have the lowest labor productivity at 12.9 times (GSO, 2023).

### C) State-Owned Enterprise Financial Supervision Status

#### a. Achievements

##### 1. The establishment of the financial supervision system for SOEs:

According to the OECD's assessment (2022), the Vietnamese government has made significant progress in improving the legal framework for ownership and corporate governance in SOEs in recent years. Privatizing and equitizing SOEs has resulted in corporate structure and management approach changes. As a result, corporate governance models have become more structured to ensure effective business operations. After equitization, investors and shareholders have been guaranteed the right to participate in corporate governance according to legal provisions, and the interests of state capital owners have been increasingly safeguarded. Compared to international standards, the governance of SOEs and economic and financial relationships between the state and SOEs are relatively well-regulated and comprehensive (Hà., N. T. T, 2021). This forms a crucial foundation for establishing and implementing the SOE financial supervision system.

The government and the Ministry of Finance have consistently adjusted and revised the system of mechanisms and policies for managing and supervising investments in SOEs to align with practical needs. Improving these mechanisms and policies has somewhat limited the risks and losses associated with capital management in SOEs. Additionally, the rights and obligations of state capital representatives in companies have been better defined.

In particular, the government has established the State Capital Management Committee (CMSC), a ministerial-level agency responsible for enhancing efficiency, promoting equitization, and separating ownership rights within 19 enterprises and the largest state-owned conglomerates. CMSC was established to oversee a portfolio of 200 SOEs, representing two-thirds of state capital. As a result, the Vietnamese government still has room to continue streamlining the current state ownership structures corresponding to 14 ministries and supervisory bodies for the remaining enterprises in the list of central-level SOEs. (OECD, 2022).

2. The financial supervision process in SOEs:

In state-owned enterprises, the oversight has become more structured and has shifted its focus from preserving and developing state capital investments in enterprises to monitoring the financial situation of these enterprises (OECD, 2022). Clear guidelines on supervisory entities have been established, and the planning for financial supervision for the next financial year is carried out comprehensively. Local supervisory agencies have defined objectives, contents, subjects, and the scope of supervision for each enterprise. Subsequently, the financial supervision plan is submitted for feedback from the Ministry of Finance and relevant ministries and agencies, the Government Inspectorate, and the State Audit Office before it is finalized, approved, and publicly disclosed before January 31 each year.

3. The method of financial supervision for SOEs:

It encompasses all SOE activities and is associated with the classification and evaluation of enterprises. According to current regulations, financial supervision is carried out through various methods: Direct/Indirect, Pre-Supervision/In-Supervision/Post-Supervision. Additionally, SOEs are required to maintain transparency in their operations, and their financial supervision activities are publicly accessible through the electronic portal of their supervisory agencies. These activities include self-supervision reports by SOEs, the results of the financial supervision of SOEs, and the implementation results and recommendations for decisions from the financial supervision activities of SOEs (Prime Minister, 2021).

4. The results of financial supervision for SOEs:

Despite a significant reduction in the number of SOEs, their activities have not diminished; instead, they are operating more efficiently and have streamlined their operations. The results of financial supervision show that, in general, SOEs have fulfilled their production and business tasks, with total revenue, profits, budget contributions, capital development, and average worker income all on the rise. Some groups and corporations have achieved significant import and export turnovers, and there have been no major loss-generating investment projects, reducing the state's financial losses. The investment activities of SOEs in essential sectors of the national economy have helped reduce state budget investment in important socioeconomic development projects and contributed to the economic restructuring process linked with innovative growth models (Ministry of Planning and Investment, 2023).

5. The impact of financial supervision activities on the operations of SOEs:

The total value of state capital ownership is preserved and developed; the proportion of loss-making SOEs has decreased significantly; SOEs' profitability rate and labor efficiency are higher than the general average of all business sectors.

**b. Limitations**

1. Policy Limitations:

The delegation of authority for the exercise of state ownership in SOEs is still fragmented and overlapping, and supervision over state capital investments in enterprises is not yet sufficiently precise, leading to limited effectiveness. Financial supervision has primarily focused on entities directly using state capital in their business activities. It has not adequately emphasized supervision throughout the process of fulfilling the state's ownership representation function. There is a lack of consensus regarding the concept of supervision for SOEs. The legal framework does not clearly differentiate the terms inspection, examination, and supervision; therefore, there is an overlap between supervisory activities and inspection and examination activities (Khanh, N. T., 2022).

2. Limitations in the SOE operations' results:

The slowing trend in the privatization of SOEs in 2022 has led to an increased number of state-owned enterprises, with capital dispersed across various enterprises, sectors, and numerous government agencies performing the role of representing the capital owner. The quality of growth and the average efficiency of capital investment in the SOE sector remain low. Over recent times, SOEs have experienced lower revenue and profit growth rates compared to the growth rate of their capital investments. Compared to non-state and foreign-invested enterprises (FDI), SOEs have exhibited lower revenue and profit growth. In other words, SOEs have to use more capital to generate one unit of product output, reducing SOE investments' efficiency. This situation poses challenges for financial oversight and results in inefficiencies, capital losses in state investments and management, and the overall suboptimal performance of SOEs (GSO, 2023).

3. Limitations in the organization of oversight implementation:

Currently, the financial oversight activities of state management agencies and capital owners in SOEs with state capital primarily involve indirect oversight methods. Specifically, these entities monitor and review businesses' financial status through financial reports, statistics, and other reports as required by law and regulations of capital-owning entities. Direct oversight is typically carried out through inspections and audits. However, there is a lack of close coordination between these oversight activities. The three types of activities mentioned (inspection, audit, and oversight) are addressed in different legal documents, and most of the current financial oversight activities in state-



owned enterprises primarily serve post-event oversight without adequately covering pre-event and in-event oversight aspects. Timely pre-event and in-event financial oversight is essential for identifying financial risks, addressing financial management issues, and issuing warnings and corrective measures. Post-event financial oversight in state-owned enterprises and state-capitalized businesses is typically conducted after the businesses implement production and business plans, financial plans, and investment projects. This is done through checks and evaluations of financial indicators that reflect capital preservation and growth (Ministry of Finance, 2023).

**Table 5: Financial Oversight Indicators for SOEs in 2021.**

Business Type	Debt to Equity Ratio (D/E)	Asset Turnover Ratio	Profit Margin	ROA*	ROE*
State-owned Enterprises	3,66	0,32	7,7%	1,9%	8,5%
Non-state-owned Enterprises	2,02	0,58	2,8%	1,1%	3,2%
Foreign-Invested Enterprises	1,55	0,94	5,55 %	5,2%	12,8%

Source: GSO, 2023

Note: \*: The 2020 data was published in the White Book of Vietnamese Enterprises 2022.

In general, State-Owned Enterprises (SOEs) exhibit high common debt ratios and low capital turnover ratios compared to Non-State-Owned Enterprises (NSOEs) and Foreign-Invested Enterprises (FDIs). However, their profitability rate reached 7.77%. Specifically, SOEs with 100% state capital achieve a rate of 6.99%, while those with over 50% state capital reach 8.75%. This is a high profitability rate compared to the 2.8% for NSOEs and 5.55% for FDIs.

In 2020, State-Owned Enterprises achieved a Return on Assets (ROA) of 1.9%, which is higher than the 1.1% achieved by NSOEs but lower than the 5.2% achieved by FDIs. Similarly, the Return on Equity (ROE) for these types of enterprises was 8.5%, 3.2%, and 12.8%, respectively. In 2021, the ROE of SOEs increased to 11.4%.

Furthermore, despite holding total assets amounting to 3.82 trillion VND, the quality and efficiency of state-owned enterprises primarily stem from large-scale enterprises operating effectively in sectors with natural advantages (such as mining and petroleum exploration) or those dominating markets due to historical reasons (such as telecommunications and financial services). These enterprises are not grounded in modern technology and innovative capabilities (Ministry of Planning and Investment, 2023).

#### 4. Some other limitations in the financial monitoring of SOEs:

The coordination between state ownership representatives and the Ministry of Finance in the execution of financial monitoring and the assessment of the business performance of one-member limited liability parent companies is not effective.

The application of technology in financial monitoring has not received sufficient attention. It has not been applied to monitoring financial issues and compliance with financial policies and regulations for state-owned enterprises. Monitoring primarily relies on financial reports (post-monitoring), which fails to detect misconduct promptly.

Currently, Vietnam lacks specialized, in-depth monitoring of the activities of SOEs in specific sectors and related performance indicators. Monitoring financial risks and bankruptcy risks in SOEs is still underdeveloped (OECD, 2020).

The internal control model for SOEs has various limitations, and the phenomenon of delayed or non-disclosure of information is still prevalent.

There is also a lack of a legal basis for receiving and handling the results and recommendations from monitoring activities for SOEs.

## V. RECOMMENDATIONS

First, complete the policies and laws related to State-Owned Enterprises (SOEs) financial monitoring.

- Laws governing the operation of SOEs: Vietnam needs to continue improving the institutional framework and maintaining a stable legal environment for state capital investment in business activities, creating a full and stable legal environment for managing and using state capital and assets in state agencies and enterprises. For investment projects that are dispersed and outside the core business sectors, it is necessary to find comprehensive solutions to ensure that economic groups, state-owned conglomerates, and state-owned enterprises focus on their core business sectors.
- Laws governing the financial monitoring activities of SOEs: Strengthen the decentralized system, delegate authority, and clearly define the responsibilities of SOEs in transparent financial reporting, as well as in the development and reporting of their operating plans. This will both enhance the autonomy and responsibility of SOEs and support state supervision in the management and use of capital and investments in business activities at enterprises.
- Separate the roles of supervisory agencies and agencies representing state ownership to ensure the independence and objectivity of financial monitoring and the evaluation of SOEs' effectiveness. The supervisory functions of

supervisory agencies (Ministry of Finance, Ministry of Planning and Investment) should be relatively independent while simultaneously cooperating with agencies representing state ownership.

- Research and add supplementary financial monitoring indicators for SOEs, including indicators reflecting their ability to pay, such as the short-term and immediate solvency ratios. Additional monitoring indicators should relate to the specific characteristics of business sectors, as the characteristics of the business sector will impact the performance and efficiency of enterprises. These indicators can be related to extraction or exploration volumes, labor productivity relative to revenue, and more. This helps identify the financial risks of SOEs to take timely corrective measures.

Second, concerning the organizations responsible for conducting financial monitoring.

- Classify SOEs based on their business performance through a thorough and timely evaluation of their financial situation and business efficiency, as well as that of their subsidiaries and affiliated companies. This classification provides a foundation for financial monitoring and offers remedies to address the existing problems and ensure the fulfillment of SOEs' goals and business plans. The classification results can also serve as a basis for developing in-depth specialized monitoring plans that consider specific business sectors and the financial risk and bankruptcy risk of SOEs.
- Clearly stipulate the direct and indirect monitoring methods for those SOEs classified based on their performance. Direct monitoring should be implemented for enterprises with a history of operating inefficiently for consecutive years and inefficiently using capital during their operations. Indirect financial monitoring should encompass pre-monitoring, in-monitoring, and post-monitoring of the business operations of SOEs.
- Strengthen the participation of relevant parties in financial monitoring: the National Assembly, the Government, relevant agencies, and the public. All ministries and localities should have unified interfaces and transparent monitoring procedures. Preparing human resources for financial monitoring at all levels is essential.
- Establish a mechanism for publicly releasing information about SOEs and agencies representing state ownership linked to specific and robust sanctions. Transparency of information is an effective tool for enhancing the overall effectiveness of monitoring, both in general and financial monitoring in particular, of SOEs.
- Design a scoring system for evaluating the degree of achievement of assigned goals for enterprises.
- In addition to specialized monitoring by dedicated supervisory agencies, there should be social participation in financial activities through transparent and sufficient public disclosure of enterprise information, considering the specific characteristics of each SOE and the actual capabilities of supervisory and management agencies.
- The agency responsible for the financial monitoring of SOEs should build an electronic data system and apply technology in monitoring and updating the financial data of the SOEs under their supervision.

## VI. CONCLUSION

Financial monitoring of State-Owned Enterprises (SOEs) is carried out to assess compliance with the law and enhance the responsibility of enterprises in adhering to legal regulations in the management and use of state capital and assets for investment. This helps the state and the agencies representing state ownership to detect weaknesses in the business operations of the enterprises, issue warnings, and propose corrective measures. This research article examines the implementation of monitoring, inspection, examination, and evaluation of financial issues and compliance with financial policies and laws related to SOEs. It does so by identifying (i) the entities responsible for monitoring, (ii) the content of monitoring, and (iii) the monitoring methods. Thanks to establishing a financial monitoring system for SOEs, monitoring activities have been systematically planned, and monitoring entities have been identified. The article points out limitations in policy and legal matters, SOE activities, the organization of financial monitoring implementation, and various other constraints. Based on the synthesized and analyzed results, the author's team proposes several recommendations to strengthen the financial monitoring of SOEs in Vietnam. Future research can focus on specific aspects of financial monitoring, such as debt and profit margin issues, or it can limit financial monitoring to specific SOEs or regions for more detailed and comprehensive qualitative and quantitative research using modern research methods, providing a deeper analysis of this subject.

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