

# To Trust or not to Trust, That's the Question: The Impact of General Trust on Household Income in Rural Vietnam

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**Abstract:** - There is consensus that social capital, through social networks and other social interactions, has a clear influence on economic outcomes. Less consensus is paid on the impact of general trust. We developed a framework of multidimensional social capital reflecting a type of resource arising from social interactions, embedded in relationships or social structures, maintained through social connections and mobilized to support collective coordinated actions. General trust is proxied by two questions: "In general, do you believe that most people can be trusted?" and "In general, do you think one should not be overly cautious in dealing with others?" in the survey carried out in 4 provinces Quang Ninh, Hai Phong, Ha Nam, Nam Dinh and utilize the multi-level fixed effects regression to estimate the impact of general trust. Our empirical results show that general trust affects household income in two ways. On one hand, households that place excessive trust in the community, believing that most people can be trusted, face significant negative impacts (25.5%) on their income. Conversely, a trusting yet not overly lenient attitude has a positive effect (27.8%). Our results extend Kien and Minamoto's (2021) findings. The impact of general trust in the form of believing that most people in the community are trustworthy is negative, implying that such general trust can be naïve and gullible, leading to erroneous decisions. On one hand, general trust facilitates decision-making and reduces transaction costs, thereby enhancing economic efficiency. As a characteristic of rural Vietnam, general trust in some cases manifests as leniency, a lack of principles, and carelessness rather than an effort to promote cooperation among parties. This misuse of social capital - considered a collective community resource - can lead to exploitation for wrongful purposes and erode social capital not only in this dimension but also in others.

**Key-Words:** - General Trust, Household Income, Multi-level Fixed Effects Regression, New Rural Policy, Social Capital, Social Interactions, Rural Vietnam.

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## 1 Introduction

Trust is a fundamental component of social capital that shapes economic interactions and outcomes, particularly in rural economies where informal institutions often play a more prominent role than formal mechanisms. General trust, defined as the belief in the trustworthiness of others beyond close social circles, can significantly influence household decision-making, access to resources, and economic performance. In the context of rural Vietnam, where community ties and interpersonal relationships are integral to socio-economic activities, understanding the role of general trust is critical for addressing income disparities and fostering inclusive development.

The relationship between general trust and household income has garnered attention in global

studies, yet its implications remain underexplored in Vietnam's rural settings. Rural households often face constraints such as limited access to formal credit markets, reduced exposure to diverse information sources, and dependence on communal cooperation for livelihoods. These conditions underscore the potential impact of trust in facilitating economic opportunities, whether through enhanced cooperation, increased participation in economic networks, or access to informal credit.

This paper examines the impact of general trust on household income in rural Vietnam, contributing to the literature in several ways. First, it provides empirical evidence from a developing country context, where cultural norms and institutional frameworks may differ significantly from those in high-income economies. Second, the study offers

insights into the mechanisms through which trust operates, such as fostering collective action, reducing transaction costs, and enabling risk-sharing arrangements. Lastly, it explores policy implications, highlighting the potential of trust-building initiatives to complement traditional economic development strategies.

By focusing on rural Vietnam, this study sheds light on the role of trust in shaping economic outcomes in settings characterized by informal institutions and community-oriented economic structures. The findings aim to inform policymakers and development practitioners seeking to design interventions that leverage social capital to improve household welfare and reduce income inequality.

## 2 Literature Review

Increasing evidence suggests that social capital plays a significant role in sustainable development. Economic literature has illuminated the importance of social capital, both in terms of its potential and the scope of its impact on human development, institutions, and social progress. There is a strong consensus within the research community that social capital, through social networks and other social interactions, as well as connections with public authorities as a form of linking social capital, has a clear influence on economic outcomes, [1], [2], [3], [4]. Less consensus is paid on the impact of general trust, which is viewed as a type of community social capital by some researchers [5] but not social capital by others [6]. In Collier's framework [7], general trust is an element of the economic mechanism in which social interaction generates externality or economic impact. OECD claims that general trust is both the source and outcome of social capital. Besides, general trust is also a "very close proxy for many of norms, understandings, and values which underpin social co-operation" so general trust should not be viewed as social capital, [6].

Portes regards the word "social capital" to two different meanings depending upon levels of analysis, [8]. Social capital might take individuals or small groups such as families as the units of analysis (Bourdieu's and Coleman's "individual social capital"). Social capital can also be Putnam's approach that includes features of networks, norms, and general trust of a community (collective social capital). These different definitions are sometimes "at odds with others" when opportunistic behaviors due to individual social capital undermine community norms constituting collective social capital, [8]. Besides, he also criticizes the logical circularity of Putnam's approach: Being a feature of

communities, social capital is simultaneously a cause and an effect. "It leads to positive outcomes, such as economic development and less crime, and its existence is inferred from the same outcomes". To Portes, the "greatest theoretical promise of social capital lies at the individual level", [9].

A study on the role of social capital in the economic development of rural households in the Red River Delta [10] pointed out that in current agricultural activities, the mutual support that once existed is no longer present, partly because agricultural production can now be mechanized. Those who still participate in agriculture today are mainly the elderly, and women in households that still have land, and they lack the ability to switch to other professions. Additionally, in a market economy, helping each other in production is no longer a central issue in the lives of farmers. Today, with the development of machinery and equipment, social capital is utilized through the sharing and provision of information and experiences among households to improve agricultural productivity. In reality, only when there is trust and emotional bonds are people willing to share with each other, which further strengthens the sense of solidarity in Vietnam's rural villages.

This study focuses on two specific dimensions of social capital: the level of analysis and where social capital is embedded. From these dimensions, four types of social capital are utilized, including (1) General trust, (2) Formal social networks, (3) Informal networks, and (4) Governmental connections."

Table 1. The dimensions of social capital

		Unit of Analysis	
		Community Social Capital	Individual Social Capital
Where resources exist and are maintained.	Relational Connection	<b>General Trust:</b> Reflects the nature and quality of relational connections at the collective level.	<b>Government linkages:</b> The household's ability to connect with government agencies <b>Informal Social Networks:</b> Informal connections with the local community
	Social Structure		<b>Formal Social Networks:</b> The number of household members participating in social organizations

Source: Authors

### 3 Analytical Framework and Data Collection

#### 3.1 Impact Transmission Mechanisms

Various forms of social capital operate through distinct mechanisms to translate into economic outcomes for their holders. The economic impact of social capital can be traced back to foundational studies in transaction cost theory, pioneered by institutional economists such as Coase. This school of thought argues that transaction costs are shaped by bounded rationality, uncertainty, frequency, and opportunistic behavior, among other factors. Under these assumptions, market transactions are costly, leading to an increased demand for cooperation among small economic units to minimize transaction costs.

Additionally, the growing body of research on the economics of innovation establishes a basis for examining the influence of social capital on economic activities. Innovation increasingly relies on social dimensions, such as collaboration, networking, and knowledge sharing. The ability to connect beyond formal channels plays a crucial role in enhancing productivity, [6]. Numerous studies highlight social capital as a key driver of knowledge dissemination and transaction cost reduction by mitigating opportunistic behaviors [2], [3], [11]. Bourdieu contended that social capital reflects the unequal distribution of "social power" in accessing individual networks. It enables individuals to derive benefits from opportunistic behavior, depending on the nature of social obligations and available networks, [1].

Coleman identifies three components of social organization that contribute to the economic impact of social capital: (1) obligations and expectations, which depend on the trustworthiness of the structure; (2) the potential flow of information linked to social relationships; and (3) social norms associated with effective sanctions. These social norms generate economically efficient outcomes by enabling individuals to control certain actions. Thus, the economic impact of social capital stems from social control, where social constraints yield individual benefits, [3]. Collier argues that social capital pertains to individuals operating in a social environment, with non-market interactions creating economic effects, [7]. These effects, not internalized as prices by involved parties, are considered externalities. Collier elaborates on the complex economic implications of social capital through the nature of social interactions. Social interactions can enhance decision-making by reducing transaction

costs or aggregating knowledge. Simultaneously, they improve their cooperative outcomes by fostering trust and reputational awareness. Moreover, social interactions facilitate various forms of cooperation, ranging from voluntary norm-based collaboration to deliberate decisions by individuals. Setiawan explains that the presence of social capital is significant because it: (1) facilitates access to information for society's members; (2) serves as a medium for sharing internal power; (3) fosters solidarity development; (4) mobilizes community resources; (5) enables collective achievements; and (6) shapes organizational behavior and integration, [12]. Social capital plays a crucial role in maintaining cohesion, fostering cooperation, and supporting traditional deliberative processes (trust), information exchange (cooperation), and social gatherings (reciprocity). It also facilitates shared goals and voluntary network participation while adhering to established rules (norm-based governance), [13].

A common thread across these studies is that social capital plays two prominent roles in rural economic development: enhancing connectivity (people, information, and knowledge) and promoting accountability (reciprocity and social norms). As a result, social capital strengthens the competitiveness of rural economies, providing more space for growth and readiness for new development and cooperation opportunities. Three primary channels through which social capital operates have been outlined: (1) bonding social capital is fostered to enhance human capital; (2) bridging social capital is strengthened to build community trust and reinforce behavioural norms; and (3) linking social capital is developed to connect social networks vertically, promote cooperation, and facilitate the diffusion of ideas and technological innovations, [14]. Putnam differentiates between formal and informal network linkages. Formal network connections facilitate access to official resources of social capital, such as social assistance or public services. In contrast, informal networks enable individuals to access internal resources, such as material or emotional support, [2].

Based on these theoretical arguments and studies, the transmission mechanisms or channels through which social capital impacts economic outcomes can be schematically represented, as shown in Figure 1.

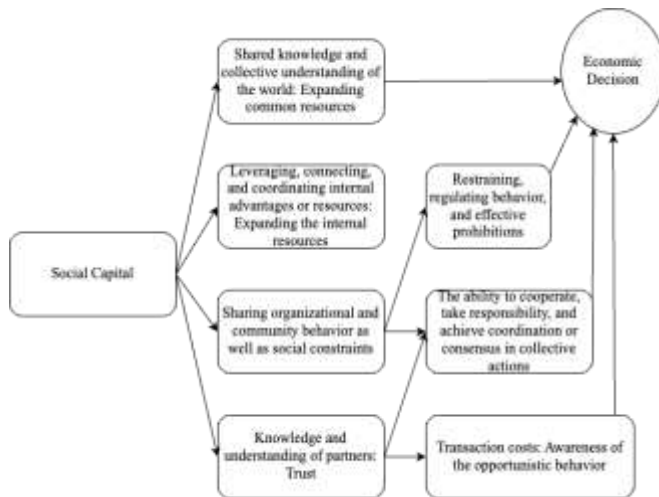


Fig. 1: Impact transmission mechanisms  
Source: Authors

### 3.2 Empirical Framework

Figure 2 presents the neoclassical production function approach to capture the impact of social capital. Resources in rural areas (capital, labor, land, human capital), along with social capital, are assumed to be fed into the production process to generate output. This output will result in specific economic outcomes such as income, consumption, etc., reflecting the economic life of rural households. Expressed in functional form, the production function can be written as  $Y=F(K, L, H, SC)$ , [15], [16], [17], [18].

#### 3.2.1 Research Hypothesis

Figure 1 illustrates two distinct mechanisms through which general trust can influence economic decision-making. On the one hand, general trust fosters cooperation, a sense of responsibility, and the achievement of coordination and consensus in social interactions, thereby facilitating economic decision-making.

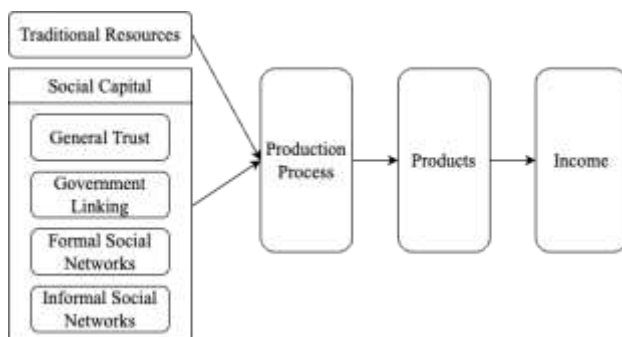


Fig. 2: Empirical Framework  
Source: Authors

On the other hand, general trust may affect economic decisions by increasing transaction costs due to inadequately mitigated opportunism and

exploitative behaviors, which can lead to losses. Consequently, the impact of general trust on economic outcomes remains ambiguous and poses an empirical question. This paper hypothesizes that: *General trust has a positive impact on household income.*

### 3.3 Data Collection

Due to the complex nature of research on social capital, including its concepts, approaches, and relatively difficult questions, the research team did not recruit collaborators or provide training for conducting interviews. Instead, they worked directly with household representatives in the study area to obtain accurate and appropriate responses. The data collection process was carried out in two phases:

*Phase 1:* A preliminary survey was conducted to collect general information, provide instructions for completing the survey, and confirm the households' willingness to participate in the survey. From August 2022 to September 2022, the survey team visited four provinces/cities: Quang Ninh, Hai Phong, Ha Nam, and Nam Dinh, focusing on four exemplary rural communes in each province. In each commune, the team worked with 15 to 20 households, identified through the local commune police or the People's Committee, to collect general survey information. They also engaged in discussions with household representatives regarding the purpose and requirements of the survey, explained the meaning of difficult terms and questions, and discussed any necessary revisions to the survey questionnaire. Additionally, the team confirmed the households' willingness to complete the finalized questionnaire, which was expected to be distributed between late December 2022 and early January 2023. Feedback from the household representatives in this phase also served as a basis for refining the in-depth interview questionnaire.

*Phase 2:* Distribution and collection of the survey, combined with in-depth interviews with household representatives. Based on the results of the preliminary survey, the questionnaire was refined according to the feedback provided by the households surveyed in Phase 1. Once finalized, the official survey was distributed to the households that had agreed to participate in the first phase, with in-depth interviews conducted with a selected number of households. The surveys were distributed between late December 2022 and early January 2023, and the responses were collected in February 2023 for statistical analysis and processing. The outcome of the data collection is a totally of 280

responses from 4 provinces: Quang Ninh (72), Hai Phong (77), Ha Nam (67), and Nam Dinh (64).

## 4 Empirical Model, Results and Findings

### 4.1 Empirical Model

Empirical model is structured as follows:

$$\ln Y_i = \beta_0 + \beta_1 \cdot \text{Charac}_i + \beta_2 \cdot \ln K_i + \beta_3 \cdot \ln L_i + \beta_4 \cdot \ln \text{Land}_i + \beta_5 \cdot \text{HC}_i + \beta_6 \cdot \text{SC}_i + u_j + \varepsilon_i \quad (1)$$

where  $Y_i$  is the household's income - the average monthly income of the household (in millions of VND).

$K_i$  is the vector of capital (the total asset value in millions of VND),  $L_i$  is a vector of labor (the household is the number of family members engaged in labor and production to earn income),  $\text{Land}_i$  is a vector of land (the area of cultivated or leased land, converted to square meters, used to generate income for the household),  $\text{HC}_i$  is a vector of human capital (the highest level of education of the household head and the highest education level of the household members, with the educational level categorized as follows: 0 for no degree, 1 for short-term vocational training, 2 for long-term vocational training, 3 for intermediate vocational education, 4 for college/university, 5 for master's degree, and 6 for the doctoral degree and above),  $\text{SC}_i$  is a vector of social capital, measured based on the conceptual framework presented in Table 1 with four dimensions: 1) General trust; 2) Government linkages; 3) Informal social networks, and 4) Formal social networks. Specifically:

- General Trust: the study uses two questions: "In general, do you believe that most people can be trusted?" and "In general, do you think one should not be overly cautious in dealing with others?"

- Government Connections, the study uses three dummy variables representing responses to three questions: "Is there anyone in your household who is an official or holds a position in the commune or higher?", "Is there anyone in your extended family who is an official or holds a position in the commune or higher?", and "Is there anyone among your friends who is an official or holds a position in the commune or higher?"

- Formal Social Networks, we include organizations, associations, and groups with more than 20% household participation, retaining the five major organizations: Communist Party (34.6%), Women's Union (70.0%), Farmers' Association (62.5%),

Veterans' Association (25.7%), and Elderly Association (21.1%).

- Informal Social Networks, the study uses responses to the question, "In case you need emergency money (enough to cover family expenses for a week), how many people outside your family can support you?" to represent the level of informal relational connections of the household to the surrounding village community.

$\text{Charac}_i$  is the household's characteristics vector.

### 4.2 Results and Findings

In this study, a linear regression absorbing multiple levels of fixed effects (also known as multi-level fixed effects regression) is used to address the issue of local fixed effects in the regression model. Table 2 presents the estimation results. The coefficient column shows the impact of aspects related to social capital on the economic status of rural households in the multilevel fixed-effects regression model, considering three different levels of locality: Province, District, and Commune. This model allows for controlling unobserved fixed factors at these three levels of locality that may affect household income.

Table 2. Estimated model

Variable	Coefficient	SD
Assets (Logarithmic form)	0.097*	[0.038]
Labor	0.182**	[0.067]
Land (Logarithmic form)	0.155*	[0.075]
Highest education of the household	0.033	[0.039]
Highest education of the head	0.11*	[0.051]
Gender of the head (Male= 1, Female = 0)	0.232+	[0.137]
<b>Formal Social networks</b>		
Communist Party of Vietnam	0.28**	[0.100]
Women Association	0.133	[0.105]
Farmer Association	-0.015	[0.099]
Veteran Association	-0.103	[0.138]
Elderly Association	-0.064	[0.102]
<b>Informal Social Networks</b>		
The number can borrow emergency money	0.024+	[0.013]
<b>General Trust</b>		
In general, I believe that most people can be trusted	-0.295*	[0.132]
In general, one should not be overly cautious in dealing with others	0.245*	[0.121]
<b>Government linkages</b>		
Household member	-0.288	[0.198]
Relatives	-0.052	[0.150]
Friends	0.077	[0.163]
Constant	-0.408	[0.563]
R <sup>2</sup>	0.486	

Note: + p<0.1, \* p<0.05, \*\* p<0.01, \*\*\*p<0.001

Source: Authors

Collective social capital in the form of general trust impacts rural household economics in two entirely different ways. On one hand, households that place excessive trust in the community,

believing that most people can be trusted, face significant negative impacts on their income. Conversely, a trusting yet not overly lenient attitude—believing that one should not be excessively cautious in dealings with others—has a positive effect on the household's economic outcomes. Being overly trusting can indeed become an economic burden for the household when trust is exploited, or when economic decisions are made based more on trust than on rational calculations, directly affecting the household's economic results.

Studies on social capital theory suggest that in communities or groups where social ties are mainly horizontal and based on loose connections, often referred to as weak ties, general trust within the community is crucial for connecting networks and moving resources to seize profitable opportunities. However, in communities characterized by close-knit ties, such as those found in rural Northern Vietnam, where relationships are based on kinship or hierarchical dependencies, excessive trust in others can lead to a lack of careful consideration in decision-making. For example, decisions based on trust in community rules like "patriarchal authority" or "clan leaders" can result in economic consequences for the household. On the other hand, moderate trust—believing that one should not be overly cautious in dealings with others—not only preserves opportunities and economic benefits for decision-makers but also fosters an open mindset to embrace new opportunities, thereby enriching both the material and spiritual life of the people.

Findings related to the role of general trust in rural household economics are highly significant. To some extent, these results were identified in [19] using the VARHS 2012–2014 dataset. However, our study's findings are clearer and more profound. The impact of general trust in the form of believing that most people in the community are trustworthy is negative, implying that such general trust can be naïve and gullible, leading to erroneous decisions. On one hand, general trust facilitates decision-making and reduces transaction costs, thereby enhancing economic efficiency. As a characteristic of rural Vietnam, general trust in some cases manifests as leniency, a lack of principles, and carelessness rather than an effort to promote cooperation among parties. This misuse of social capital—considered a collective community resource—can lead to exploitation for wrongful purposes and erode social capital not only in this dimension but also in others, [7].

Conversely, rational and moderate community trust, with an optimistic attitude based on principles to avoid confusion between reason and trust, plays

an important role in supporting economic decision-making, especially collective decisions that benefit the community. This aspect of community trust facilitates transactions and agreements, making them smoother and requiring fewer mechanisms or costs to ensure compliance. In leveraging the role of social capital to promote rural household economies, it is crucial to navigate community trust in this way to benefit both individuals and the collective.

## 5 Policy Implications and Conclusion

It is important and requires caution to develop policies aimed at fostering a spirit of mutual support and creating trust in forms such as general trust. Traditionally and intuitively, general trust is viewed as a positive trait that should be expanded. However, in today's practical environment and in the specific context of rural Northern Vietnam, promoting general trust should focus on encouraging optimism, cooperative spirit, and sincere openness rather than creating an environment where general trust is pushed to an excessive level. This implies that behaviors that exploit or harm general trust for personal gain can erode the identity and richness of community social capital, [3].

General trust, if to be used as a model for assessing the quality of relationships, must be ensured by specific institutions within the community, such as customary laws, or be regulated by laws and effective enforcement mechanisms to prevent exploitation for harmful personal purposes. Of course, no one wants to live in a society where one must be cautious about everything, all the time, everywhere, but the moment we are least cautious is also the moment we are most vulnerable. Effective monitoring and enforcement mechanisms likely need to be closely tied to local rural social structures, including clan, kinship, and occupational connections. This implies a greater and more effective empowerment of rural communities in regulating behavior, establishing behavioral rules, and setting norms.

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## Declaration of Generative AI and AI-assisted Technologies in the Writing Process

During the preparation of this work the authors used Grammarly for language editing. After using this tool/service, the authors reviewed and edited the content as needed and take full responsibility for the content of the publication.

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#### **Conflict of Interest**

The authors have no conflicts of interest to declare.

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