

Antecedent influencing entrepreneurial activity and poverty reduction in Nigeria: A conceptual paper

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Abstract

The study seeks to provide a conceptual paper on the antecedents influencing entrepreneurial activity and poverty reduction in Nigeria. The paper argued that studies on entrepreneurship in emerging economies are scarce and mainly in the formal sector despite the vast size it has most especially in developing economies. Similarly, studies on capability are concentrated on intention rather than activities of the entrepreneur. The influence of national culture and entrepreneurial activities has presented inconsistent results and also not many studies considered this in the context of a single country. Furthermore, studies fail to view poverty from a multi-dimensional angle which provides a more robust measurement. The argument presented in this paper may facilitate further studies to consider the shortfall of previous research.

Keywords: Access to finance, business capability, national culture, entrepreneurial activity, determinants of poverty, poverty.

Introduction

Entrepreneurship has been widely accepted as one of the catalysts for economic development in a lot of economies, this is due to the consensus between scholars that there exist a significant relationship between entrepreneurship and economic development (Egwu, 2014; Zwan, Hessels & Sanders, 2013; Stel, Carree, & Thurik, 2005; Boettke & Coyne, 2003). This is without a doubt the reason why two third of the adult population all over the world reiterate that self-employment is much better option than employment. Furthermore, the jobs created by entrepreneurship is quite large and 80% of entrepreneurs all over the world insist that they are willing and would even create more jobs (Kelly, Singer, & Herrington, 2016). This is not different in Sub-Saharan Africa with high entrepreneurial activity although business discontinuity is also very high in this region (Singer, Amorós, & Moska, 2015). Moreover, the Central Bank of Nigeria introduced the Youth Entrepreneurship Development Programme (YEDP) in 2016 targeting entrepreneurial youth for soft loans to propel much needed economic growth (CBN, 2020)

Nigeria, as a country in Sub-Saharan Africa, also has one of the highest total entrepreneurial activity and also the highest with regards to youth participation in the region (Amorós &

Bosma, 2014). Nigeria is a West African country with over 180 million people, with the largest economy in Africa and the twenty sixth largest in the world after rebasing in 2014 (World Bank, 2016). The country is divided into six geo-political zones (North-West, North-East, North-Central, South-West, South-East and South-South), with over 250 ethnic groups and over 200 languages (National Bureau of Statistics, 2012). The North-West which is the main scope of this research has the highest number of states with seven states (Kaduna, Katsina, Kano, Jigawa, Sokoto, Kebbi and Zamfara) and the region has the second largest GDP and also the second largest in terms of economic activities (UNDP, 2009). Informal entrepreneurship is also considered very high in the country, about 96% of businesses in the country are not registered (National Bureau of Statistics, 2013) and the contribution of the informal sector to GDP is about 52% /53% (Igudia, 2014). The informal sector is more prevalent in the North-West region which is where this study is centered upon (Igudia, 2014). In this research informal entrepreneurship is viewed as any situation where an individual is actively saddled with managing or owning an enterprise which is aimed at producing product or services or the sales of this product or services which are legal

in all respect besides the fact that the business is not registered (Thai & Turkina, 2014).

The Federal government of Nigeria in an effort to curb out poverty in the country has since in the mid-80's come up with a number of initiatives to boost entrepreneurial activity and instill the entrepreneurial culture, these initiatives include National Directorate of Employment (NDE), National Poverty Eradication Programme (NAPEP), and Industrial Training Fund (ITF). It has further established an Entrepreneurship Development Centre [EDC] in each of the six geo-political zones in Nigeria as well as another initiative of which is the YouWIN program and Youth Entrepreneurship support (Egwu, 2014; Emejo, 2016).

However this programs has had little or no effect due to mainly corruption and mismanagement, lack of accountability, lack of also good target mechanism, lack of continuity of these programs (each government initiate a new program) and many others which has rendered these policies or initiative inactive and lacking in success (Adeyemi, Ijaiya, & Raheem, 2009; Abbas, 2013)

The alarming issue is despite the high total entrepreneurial activity and entrepreneurial participation, it has not changed the high poverty figures in the country. Over half of the population are plagued with poverty which is close to 100 million people, 69% of the population are relatively poor while about 62% are absolutely poor. The North-West region has the highest figures of poverty with 77% relatively poor and 70% absolutely poor (UNDP, 2013). The North West States also have the highest level of poverty using the multidimensional approach. These further indicate that the region is poor with regards to indicators such as education, health and living standard in the country (Oxford Poverty and Human Development Initiative, 2016).

Furthermore, it is disconcerting to know that over half of the population are financially excluded, the populace exclusion from the formal financial system is up to 65% (Nkamnebe & Idemobi 2011). GEM (2015), likewise maintained that supply of funds to enterprises in Nigeria from the formal financial system is just 7%, this is quite low and compared to other countries Sub-Saharan countries, with over 80% funding coming either from personal savings of the entrepreneur or

family members. Moreover, the problem of discontinuity of business is mainly related to inaccessibility of finance to the entrepreneur and lack of skills, capacity to run and manage a business. This deficit of lack of skills is not an impediment to only discontinuity of this business but also the growth of the enterprises (GEM, 2015).

Thus, the study seek to answer this research questions

What are the factors influencing entrepreneurial activity on poverty reduction in the North-West geo-political zone of Nigeria?

To what extent does entrepreneurial activities as a mediator has a relationship between access to finance, culture, business capability and poverty reduction?

To what extent does household size, education, female household head and consumption as a moderator have a relationship with poverty reduction?

Studies focused on formal source of financing this study is not limited to a single form of financing but open to all forms of financing, there are inconsistencies in the results that studied the influence of national culture and entrepreneurial activities, this study is aimed at a different context. This study view poverty from a multidimensional context which is different from other studies. This questions will be answered through extensive literature review and the analysis of this review to come up with a conceptual framework which will be able to guide future studies.

Conceptual and theoretical foundations

This section will discuss the conceptual and theoretical foundation of the antecedents (Access to finance, business capability, national culture) influencing entrepreneurial activity and poverty reduction.

Access to finance and entrepreneurial activity

The meaning of access to finance is not construed to mean anything different from what it is perceived to be, it is having access to funds for use in the start of a business or growth of an enterprise. The main point of contention is the classification of access to finance, Emdad, Julián, Berkes, & Giesbrecht (2015) classified having access to finance into two, the formal and the informal. The formal in this case is the loans from formal financial services such as commercial banks, microfinance bank and other financial institution while the informal

supply is loans from family, friends and social network.

However, Rouse & Jayawarna (2010) classified access to finance into three, personal investment, external financing sourced privately and investment from the public which include grants from the government and other external grants. Similar to this classification is that of Obamuyi (2009) which is used in this research. Obamuyi (2009), classified access to finance into the formal, semi-formal and informal supply. The formal supply is from the banks either deposit money banks, developmental banks or other financial institutions. The semi-formal supply, on the other hand, is having access through micro credit institution which could either be set-up privately or by the government. The informal supply, in this case, refers to access to finance through family, friends, social networks, and other sources.

As earlier highlighted access to finance as one of the major obstacles for entrepreneurial activities in the world, this is not different for Sub-Saharan Africa, however Sigalla & Carney (2012), argued that despite the importance of finance in the start-up and growth of enterprises, there has been so little research on micro-credit especially in the context of entrepreneurship. Although some studies (Kuzilwa, 2005) clearly argued that access to finance on its own do not enhance entrepreneurial activities.

Furthermore some research (Kwong, Jones-Evans, & Thompson, 2012; Ahmad & Muhammad, 2015; Brixiová & Kangoye, 2016) have established that women are more constrained to finances than men, other studies (Watson, Newby, & Mahuka, 2009; Irwin & Scott, 2010; Hulten, 2012) result indicate that there is no discrimination in relation to access to finance. Mixed results on whether women are perceived to have a barrier in access to finance is an important issue to consider, moreover, the female entrepreneurs account for 43.32% in the informal sector in Nigeria (National Bureau of Statistics, 2013).

In addition, most previous robust empirical works (Daskalakis, Jarvis, & Schizas, 2013; Prohorovs & Beizitere, 2015; Bhattacharya & Londhe, 2014 and others) were conducted in a more developed countries hence cannot be generalized, thus there is a dire need to address this lack of studies particularly in the Sub-

Saharan region. Moreover, informal sector studies are also limited to the study of access to finance and entrepreneurial activities, however, this sector constitutes a large chunk of the Nigerian economy. Thus, it is pertinent to empirically analyze how access to finance enhances entrepreneurial activities in the informal sector.

Similarly, a lot of studies (Prohorovs & Beizitere, 2015; Wang, Jia, 2015; Ahmad & Muhammad, 2015; Irwin & Scott, 2010; Brixiová & Kangoye, 2016) have focused on formal source of financing this study is not limited to a single form of financing but open to all forms of financing, furthermore even though access to finance is important at start-up, it equally important in other phases of the life cycle of the business, thus the reason why this study is on established business.

One of the famous theories on entrepreneurship, Schumpeter theory highlighted the nexus between finance and entrepreneurship, He argued that the use of finance through credit must be justified by the means of adding value or creation. An entrepreneur is a debtor Accordingly, the entrepreneur is very important as he pays interest on capital. The entrepreneur is very much influenced by his access to resources, market dimension, and independence of the banking system. Although the theory argues that having to the source of the fund through credit should only be justified if it leads to innovation, it, however, does not specify other sources of finance for entrepreneurship and does not lay condition of having other accesses (Croitoru, 2012).

On the other hand, This study underpins the relationship between access to finance and entrepreneurial activities on the resource base view of Barney (1991,2001), he argued that organization sustain advantage over others (competitor) by relying and exploiting on their internal strength (resources) and exploring opportunities in the environment while at the same time neutralizing any externalities (threats). The theory views of firm's heterogeneity their resources in one key factor in sustained competitive advantage. Barney defined this resources to be as all forms of a firm's resources including its assets, capabilities, organizational process, knowledge and much more.

Based on the argument above, the study intends to hypothesize the relationship between access to finance and entrepreneurial activities as follow:

H1.1 There is a positive relationship between finance availability and entrepreneurial activities.

National culture and entrepreneurial activities.

Culture is widely regarded as values, norms, and beliefs that differentiate one group and the other. Hofstede & McCrae (2004) defined it as a collective programming of the individual's mind which highlight differences between individuals or group of individuals. Similarly, Sharma (2010), argues that culture refers to beliefs, norms, and values that are common with a certain set of people, this beliefs, norms, and values distinguish two distinct groups. Culture has been an influencing factor in the growth of entrepreneurial activity, it has been able to shape the idea of been entrepreneurial and the values attached to be an entrepreneur (Morrison, 2000), although it could also have a negative influence towards the development of entrepreneurial ventures (Muktar, 2013).

National culture is referred to as culture shared by a people living in a country. The dimension of national culture mainly used in entrepreneurial studies is mainly four individualism, power distance, masculinity and uncertainty avoidance (Tlaiss, 2014).

Individualism is referred to in this context as the extent to which individual come to recognize the fact that they exert autonomy, independent and have a sense of freedom. High individualism breed individual interest which results in an individual endeavor to make a difference in their quest for achievement. On the other hand, power distance refers to the extent to which people expect power to be unequally distributed, a situation where there is high power distance it exerts that there is a very high unequal distribution of power in that society and vice versa. Masculinity culture supposedly exhibits masculine values such as recognition, advancement, and challenge. Any society with high masculinity display men to be tough and assertive while women are more modest and soft. Uncertainty avoidance is a situation where individual in a society do not take a risk or rarely tolerate ambiguity, high uncertainty avoidance means an individual wouldn't or rarely make risky decisions in a society (Hofstede, 1984). These dimension as discussed highlight its nexus with entrepreneurial activities.

The study of culture using national culture is popular in entrepreneurship studies. However, most of these previous research are multi-country studies, thereby measuring similarities between countries in relation to its entrepreneurial activities. Although, there is still a few research that maintains a comparison of national culture and entrepreneurial activities within a single country. It is still not sufficient, more studies need to be conducted in different countries.

The first study to use a single country is that of Osoba, (2009), the study compared immigrants in the USA to ascertain the relationship between their national culture and entrepreneurial activities. Both studies of Aramand, (2013) and Tlaiss, (2014) used qualitative methodology by investigating the impact of national culture on women entrepreneurs in their respective single countries. The study of Şahin & Asunakutlu, (2014) focused mainly on people living in Bulgaria with Turkish roots and the influence of national culture on entrepreneurial intention. Similarly, the study of Urban & Ratsimanetrimanana, (2015) mainly on the ethnic groups in Madagascar, the effect of national culture on entrepreneurial activities. Thus, it is critical to compare cultures across the regional boundaries so as to ascertain the relevance of culture in the start-up of entrepreneurial ventures in a particular region. This will come up with interesting result for different countries.

The expected sign to explain the relationship between national culture and entrepreneurial activities are positive individualism, positive power distance, positive masculinity and negative uncertainty avoidance (Tlaiss, 2014). However, there are inconsistencies in the results that studied the influence of national culture and entrepreneurial activities, while some studies indicate that power distance is positive linked other studies highlight the opposite sign, this consistency is also the same with the other dimension (Bruton, Ahlstrom, & Li, 2010).

Shane, (1993) study compared two years 1975 and 1980. In 1975 individualism was positive, power distance negative and uncertainty avoidance negative to entrepreneurial activities while in 1980, the result indicate individualism negative, power distance positive and uncertainty avoidance negative to

entrepreneurial activities. The study of Osoba (2009) also indicates uncertainty avoidance as positive with Masculinity is also positive. This is consistent with the work of Rubio-Bañón & Esteban-Lloret (2016) which explains that masculinity does not influence entrepreneurship rates. The work of Shane (1992), also highlight that individualism is positively related to entrepreneurship while power distance is negatively related to entrepreneurship, however, this is different in the study of Pinillos & Reyes (2011) highlighting that individualism is negatively related to entrepreneurial rate when development is not high and vice versa.

Thus, this inconsistency suggests a need to further conduct more studies especially in countries that have rarely conducted a similar study so as see how this dimension react in a developing Sub-Saharan country like Nigeria.

One of the most notable contributions to cultural theory is that of Max Weber. His view on culture was mainly centered on religion, he argued that religion is the main catalyst for capitalism (entrepreneurship). The idea of “the calling” is an aspiration to heed the call to individual aspiration through capitalism. The work of Weber is centered on the Christian faith (Weber, 1920). Another controversial argument is that of Lewis (1966), which see poverty as phenomena that occur due to a cultural inclination. Even though this concept has been criticized, Jindra & Jindra (2016) argues that one’s social class could reflect in his social upliftment because of “practical consciousness”. This could be a hindrance in trying to boost the status of an individual and improve his circumstance. Thus, the culture of poverty could not only influence an individual but it can also influence his children and grandchildren.

Based on the argument above, the study intends to hypothesize the relationship between national culture and entrepreneurial activities as follow:

H1.2 There is a significant relationship between national culture and entrepreneurial activities.

H1.2a There is a relationship between individualism, power distance, masculinity, uncertainty avoidance and entrepreneurial activities.

Business capability and entrepreneurial activities.

The paucity of skills has resulted in a number of failed business especially in Sub-Saharan Africa and Nigeria (UNDP, 2013), this necessitates the need to urgently seek and find a solution to this problem. Business capability refers to the capabilities that distinguish entrepreneurs and

non-entrepreneurs, these capabilities enable entrepreneurs in starting, managing and developing the enterprise (Ogundele, Akingbade, 2012). These capabilities differentiate between entrepreneurs and non-entrepreneurs, the entrepreneurs are able to enhance or combine and to come up with superior products or services that will provide an edge over their competitors (Weerawardena & Mavondo, 2011). A more comprehensive definition of the term by Clercq & Arenius (2006) as human capital which entails having the knowledge and ability which is relevant and most importantly applicable in the start-up and management of ventures.

The study of Manzanera-Román & Brändle (2016), argued that skills exhibited by male and female entrepreneurs are different, although there are skills to which both gender possesses, other skills that propel both sex and make them unique are quite different. Thus, this present research is not focused on the difference among the gender with regards to intention or behavior, the present research is aimed at establishing whether self-efficacy and entrepreneurial capacity as a construct for business capability influence entrepreneurial activity for both sexes.

Although related but not closely related in this context is the concept of entrepreneurship education, there are two divergent opinions on this issue. The first strand (Oyugi, 2015; Matlay 2008; Jiménez, Palmero-Cámara, González-Santos, González-Bernal, & Jiménez-Eguizabal, 2015 and others) of literature argues that entrepreneurial education does have an impact on intention to start entrepreneurial activity while the second strand (Oosterbeek, van Praag, & Ijsselstein 2010; Yousaf, Shamim, Siddiqui, & Raina, 2015; Rae & Woodier-Harris, 2013) are of the opinion that entrepreneurship education has no impact on the intention to start any business.

Furthermore, most of the above studies are on intention to start a business, there are few research on existing businesses. This study will view the ease or difficulty of an individual to set up and successfully run an entrepreneurial business, similarly the entrepreneurial capacity of an individual in the smooth operations of an entrepreneurial business.

Although there has been a number of empirical research in this context, most of the previous researches (Yu, 2013, Vincett & Farlow 2008, Ulvenblad, Berggren, & Winborg 2013, Maritz et al 2015, von Graevenitz et al., 2010 and

others), are mainly centered in developed countries, there is no much study on Sub-Saharan Africa and Nigeria.

The theory of human capital theory by Mincer, (1981) argues that having developed an ability can distinguish an individual, these acquired abilities are as a result of both formal and informal education. The theory also opined that this human capital propels individual in the creation of new knowledge which could be stated as innovation. The resource-based theory is a theory that has been used to explain so many relationships, in this case, it explains the relationship between business capability and entrepreneurial activity. Alvarez & Busenitz (2001) explain this relationship by reiterating that having entrepreneurial resource is a prerequisite for creating and sustaining an entrepreneurial venture. One of the components of these resources is entrepreneurial knowledge which is the ability to recognize opportunities and also combine homogeneous inputs and convert them into heterogeneous output which sustains a competitive edge.

Based on the argument above, the study intends to hypothesize the relationship between business capability and entrepreneurial activities as follow:

H1.3 There is a positive relationship between business capabilities and entrepreneurial activities.

Entrepreneurial activities and poverty reduction

The concept entrepreneurial has had a lot of divergent opinions on it, the main central argument is that having a venture that is entrepreneurial does not mean the owner is an entrepreneur (Ahmad & Seymour, 2006). This explains that entrepreneurial activity as different from the entrepreneur, however, Singer et al. (2015), is the opinion that you cannot separate the two, a firm that is entrepreneurial suggest that the owner is an entrepreneur. They define entrepreneurial activity as the percentage of the mainly adult population ranging from 18-64 years old that are actively involved in starting a business or perhaps being the owner of the business. In contrast with the above definition, the above approach encompasses both the owner and any person involved in setting up the business as entrepreneurs. Entrepreneurial activity is a process which creates new business, expansion of existing ones that could lead to economic development (Zoltan & Armington, 2003).

Poverty is even more controversial in the context of its definition, Sen (1983), argues that the view of defining poverty through a line does

not imply the true picture of poverty, it cannot guarantee the accuracy. Although Yuan & Xu (2015), argued that poverty can be defined using a line, they further explained that poverty through that line can classify absolute or relative poverty to mean an individual is poor if the household expenditure per capita for that individual equal or lower the international and national poverty line. However Philip & Rayhan (2004) maintained that poverty has to be viewed elaborately, it constitutes lack of economic, social, political and cultural resources deemed necessary for the survival of individual, this view is also constitute the argument put forward by Noble, Ratcliffe & Michael (2004) that poverty is the deprivation with regards to the basic need of a human being. The Oxford Poverty and Human Development Initiative (OPHI), (2016) and United Nation Development Programme (UNDP) came up with a definition of poverty to mean deprivation in three dimensions which are the Education dimension, health dimension, and the living standard dimension. This definition is more elaborate and robust as it covers the main aspect that is centered on the basic need of any human being.

The result of previous studies on entrepreneurship and poverty provides mixed results. Some studies (Ali & Ali, 2013; Yanya, 2012; Yanya et al., 2013; Singer, 2006) point out that entrepreneurship does not have any impact on poverty reduction while other studies (Ab.Hadi et al., 2013; Tobias et al., 2013; O'Brien, 2012; Paramanandam & Packirisamy, 2015) proved the contrary. This could be as a result that some of this studies focus on the formal sector of the economy while the large chunk of the economy is in the informal sector. Thus, it is quite important to ascertain this in a developing country such as Nigeria with high poverty status. Moreover, some of these studies were conducted in the formal sector, this study will be in the informal sector which is considered as more likely to have poor people. Moreover, the mix findings warrant the need to introduce mediating and moderating variables to further explain the relationship between these variables.

Furthermore, studies on entrepreneurship and poverty used different measurement for poverty, some studies relied on household income (Samer et al., 2015; O'Brien, 2012), other studies measure poverty using Gini-coefficient and headcount growth (Yanya et al., 2013; Lippmann et al 2005) and other measurements. This studies failed to measure poverty using the multi-dimensional view. This indicator is

more robust because it takes into cognizance a number of indicators which are all factors in determining poverty. This indicator, unlike other indicators, is not reliant on monetary measures, this measure of poverty take ten (10) measure of poverty grouped into the educational measure, health measure and living standard measure.

The Schumpeter theory is regarded as one of the earliest theory of entrepreneurship, the theory argues that entrepreneurship is embedded with innovation. The combination which is regarded as entrepreneurship is called creative destruction. He argued that development in any society is the play of the entrepreneur. Furthermore, he argued that having any economy with high entrepreneurial activity will result in an economic development which in turn reduces poverty. Despite the high entrepreneurial activity in Nigerian as earlier reiterated, there is high poverty in the country and moreover, unemployment is rising from 13.9.4% to 14.2% in the last quarter of 2016. This clearly suggests a mismatch between the theory and reality. Thus, this study warrants the need to study further while adopting to determine the moderation effect of household

size, education, gender, and consumption on poverty reduction so as to see the effect of this factors on poverty reduction in the country.

The theory of Oxenfeldt of 1943, is placed on the notion that individual who are confronted with unemployment would be stimulated to seek for self-employment. The theory was termed "Refugee effect" and an extension of Knight Theory which argues that individuals are confronted with three decision to make which are unemployment, self-employment, and employment. Each decision has a price attached to it (Thurik, Carree, van Stel, & Audretsch, 2008).

Based on the argument above, the study intends to hypothesize the relationship between business capability and entrepreneurial activities as follow:

H1.4 There is a negative relationship between entrepreneurial activities and poverty.

H1.5 There is mediation effect of entrepreneurial activity on the relationship between access to finance, business capability national culture and poverty reduction.

H1.6 There is a moderation effect of household size, education, gender, consumption on poverty reduction.

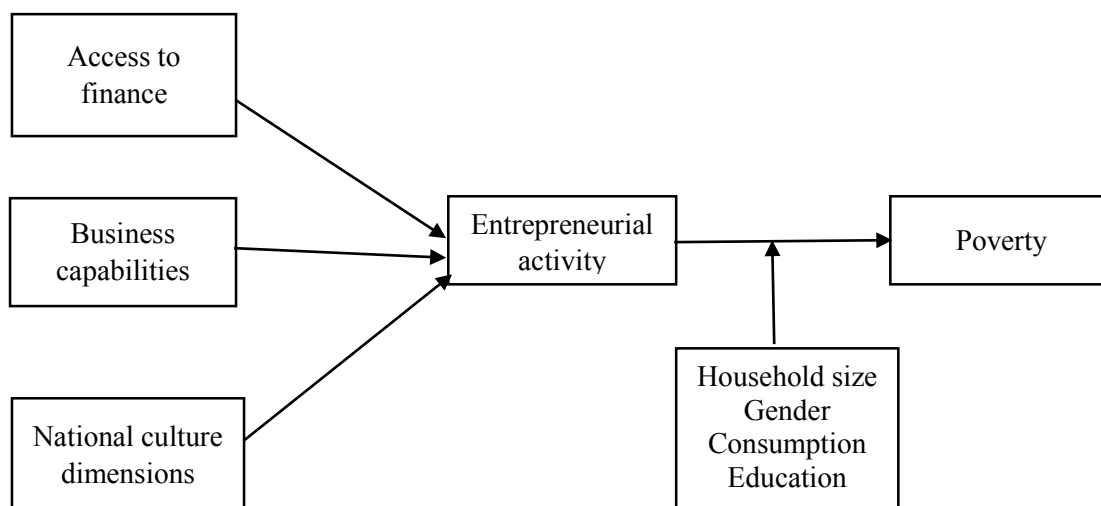


Figure 1: Conceptual framework

This study set out to specify a conceptual framework on the antecedents influencing entrepreneurial activity and poverty reduction in Nigeria.

The high number of poverty in Nigeria is quite alarming, and its resulting impact has been catastrophic with unending cases of crime, insurgency, and social vices. Although there is

high entrepreneurial activity this has not actually changed the figures of poverty with the vast majority of the population are poor. Despite this daunting task and problem, not many research have been conducted in this region to come up with solutions.

It has been argued that most robust empirical reviews are mainly in developed countries, this

is the case as argued by Bruton, Ahlstrom, Obloj (2008), they reiterate that studies are more focused on developed countries, there are not much robust research in emerging economies, moreover result from research in Sub-Saharan Africa has had lack of evidence or anecdotal evidence.

Furthermore, Choi (2015) opined that studies on entrepreneurship are more focused on economic growth, wealth creation, the value of innovation and others. There are not many studies on poverty reduction and economic mobility. Similarly, studies should focus more on the use of UNDP and OPHI multi-dimensional indicators which are more robust in measuring the term poverty.

The problem of access to finance and lack of skills is very important if ventures are to survive, lack of finance is not only a deterrent to entrants into any business but also an important mechanism to grow any enterprise. Similarly, this can only be achieved if the owner or manager of the venture is equipped with skills to not only manage the enterprise but seek opportunities within or outside the scope of the business. Additionally, studies on entrepreneurship education, knowledge, and entrepreneurial capacity should concentrate more on entrepreneurial activities rather than intention. The results presented using this will predict more the relationship between the variables. National culture as important as it needs to be studied most especially related to a single country so as compare the results from previous research, and to seek out to why the inconsistencies in the result. The inconsistency in the results might be due to the location of the research. It would be interesting to compare national culture and entrepreneurship between regions or states within a single country.

Studies are more reliant also in the formal sector in their research, this could be due to the easy accessibility of data. However, the informal sector is also very important as it constitutes a large chunk of a number of emerging economies. Thus, future studies need to focus on the informal sector.

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