

## EFFECTS OF REVENUE GENERATION ON RURAL ECONOMIC DEVELOPMENT IN OROLU LOCAL GOVERNMENT AREA (LGA), IFON OSUN, OSUN STATE, NIGERIA.

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### ABSTRACT

The availability of adequate funding is a major prerequisite of economic transformation of a local government area. This study examined the effects of revenue generation on rural economic development in Orolu Local Government Area, Ifon-Osun, Osun state Nigeria. It identified the socio-economic characteristics of the respondents as main determinants and parameters of rural economic development. It also examined the relationship between revenue generation and rural economic development as well as analyzed the constraints militating against the effectiveness of revenue generation in the study area. Structured questionnaire was used to collect data from 150 (one hundred and fifty) respondents selected through systematic purposive sampling techniques in the study area. Descriptive statistical tools of percentages, frequency and table distributions were used to describe the socio-economic characteristics of the respondents. Logit Regression Analysis was used to evaluate the effects of revenue generation on rural economic development at level of 95% confidence interval as well as Regression Analysis on the constraints militating against revenue sourcing in the study area. Findings revealed that the computed F-statistic with corresponding probability value ( $F_{5, 26} = 364.23$ ,  $Prob > F = 0.0002$  and for the Adjusted  $R^2$  (0.0870) and  $(\beta = 0.84534)$ . This indicated that revenue generation has significant relationship or positive effects on economic development of the study area at  $p \leq 0.05$ . This paper recommended that government particularly at the local level should pay greater attention to the synergy between revenue sourcing and socio-economic transformation so that rural economic development can be stimulated and sustained. The government should ensure greater accountability and transparency on the part of its officials as also their virtues of integrity and transparency would invariably affect and effect socio-economic and rural transformation of the study area.

**Keywords:** Revenue Generation (RG), Rural Economic Development (RED), Orolu Local Government Area (OLGA), Nigeria.

### 1.0 Introduction

First and foremost, the leit motif behind the establishment of local government is that of rural economic development and socio political transformation. The imperativeness of this

dawns on local councils because they are the closest or nearest government to the people; consequently best strategically positioned to play the pivotal role of national development. Since they are responsible for the governance of about

70% of the population in Nigeria, they are in vantage position to articulate the needs of this majority and formulate strategies for their realization and accomplishment (Ibok, 2014; Ekpe, Daniel & Ekpe).

In other words, the complexity of the modern day government has made the establishment of local government an administrative expediency. The modern states are confronted with more political, economic and social challenges. Needless to mention that of international relations. By way of demographic explosion particularly in developing countries, the Nigerian population in 1963 which was 56million rose to 80million in 1991. The current 2018 estimate is astronomically projected to be about 198 million people with an annual growth rate of about 6.5%. By way of inference, there is about 70% estimated rural populace in Nigeria. The implication being that government is far removed away from about 140million Nigerians. Suffice it to note that development is meaningless if it does not affect/effect rural dwellers (Duruiheoma, 2018; National Population Bureau 2017).

Consequently, it is in the bid of stemming against this factor or element of governmental disconnect that local administrations are located at the grassroots; charged with the onus of service delivery to the citizenry. How these duties are effectively discharged so that there can be improvement in the socio economic and political conditions of the people within their jurisdiction, becomes the basis, yardstick and parameters upon which they are appraised or evaluated (Adebayo, 2014; Akeem, 2011).

Suffice it to contend that a major tier the central government deploys in achieving macro economic objectives of financial inclusiveness, resource allocation, income distribution / redistribution and economic stabilization is the local government. As a result of the discharge of this onerous task, it handles colossal fund and resources that transmute into governmental expenditure on

infrastructural facilities, road construction, energy and power generations, health and medical facilities just to mention few. These would engender an atmosphere of capital formation (CF) and gross domestic investment (GDI) which will raise the standard of living through the eradication of abject poverty and wanton squalor (Uremadu, 2008; Uguru, 2011).

It is apt to contend that it is only when these lofty dreams are accomplished that the idealisms in local administration are realized. Yet, the resident population in the local government areas in Nigeria are denied and deprived of the benefits expected of their existence and indeed are merely existing and not living. This is evident in the environmental degradation, decrepit public schools buildings, poor market facilities, lack of health care centres as well as inaccessible roads and non-existing drainages. The dysfunction of government in service delivery has made the citizens lose trust in government as an institution at the local levels. In some areas, council officials are better known for the harassment of citizens than service delivery (Eneaya, 2010; Adeyemo, 2010).

Needless to mention graft and corruption which have eaten deep into the fabric of local government as an administrative tier. This is the *raison detre* behind the skeletal level of development at the local levels in Nigeria and this predicament is not an isolated case peculiar only to Orolu Local Government but a general situation affecting all levels of government in the nation. Unless much is done to ensure greater accountability and transparency, the clamour for independence in local government administration would remain noise and fury signifying nothing (Ajayi, 2003). Similarly, the generality of Nigerians shall continually crave for change in its administrative style as with reforms of its structures, institutionalism, *modus operandi* and revenue sourcing. This is in order not to only bring it in conformity with current realities, but also make it



relevant and live to expectations of people who are perpetually yearning for development and sense of belonging (Alam, Noir, Dion & Nur, 2012)

Suffice it to note that Orolu Local Government Area of Osun state is one of councils created for the development of the local communities and to bring about improvement in the living condition of its people. It is one of the thirty (30) local government areas in Osun state and one of the seven hundred and seventy-four (774) in Nigeria. Its headquarters was situated in Ifon Osun. Geographically it is located at 7°52'00"N and 4°29'00"E. Features of gross underdevelopment, inadequate funding and poverty were easily discernible in the area which leads to the pursuance of the following objectives in this study.

### 1.2 Research Objectives

The main objective of the study was to evaluate the effects of revenue generation on rural economic development while the specific objectives were to:

- (i) identify the socio-economic characteristics of the respondents which are the main determinants of rural development;
- (ii) examine the effects of revenue generation on rural economic development; and
- (iii) analyze the constraints military against revenue generation in the study area.

### 1.3 Literature Review and Conceptual Underpinnings

Suffice it to contend that the two main concepts under focus are Revenue Generation and Rural Economic Development. The position of Adejoh & Sule (2013); Alade (2015) Emengini & Anene (2010); Akeem (2011) and Usman (2011) is that revenue generation refers to all tools/instruments of state income such as taxes, rates, fees, levies, fines, duties, penalties, rents, dues, proceeds, allocation and any other receivable income of

government to which the legislature has the power of appropriation. Alade (2015) defines it as the annual or periodically yields of taxes as well as other sources of income that a nation, state or public collect or receives into the treasury for public use.

Also, Olaoye (2008); Laffer (2009); Flesher & Flesher (2007) and Adedeji (2006) were pungent in asserting that Nigeria is a mono driven economy with over 80% of annual revenue of the three tiers of government being sourced from the sale of crude oil. Uremadu (2008); Lymer & Oats (2010); Popoola (2009) and Procter (2005) dwell on the role revenue plays in the society and the effects it has on inter sectoral development in particular. With the benefit of hindsight into state roles and duties of resource allocation, it distributes and redistributes income and resources to first and foremost entrench the interest of the most dominant class in the society. Hence, the position that revenue allocation in Nigeria promotes national unity and equity is farcical and a further validation of the elite grand theoretical delusion which equates the interest of the dominant class to that of all and sundry in the society (Naiyeju, 2010, Uhumwagho & Stanley, 2013; Dang, 2013).

In other words, it is in the bid to further entrench and consolidate the economic interest of the dominant ruling elite that the revenue allocation formula was fixed at:

52.7%	Federal Central Government
26%	States Government
20%	Local Government

Source: National Bureau of Statistics, 2015

Also, it is the skewedness and lopsidedness of fiscal federalism that are the basis of contestation and even the recent clamour for power devolution, and decentralization of the Nigeria administrative structure. In fact, the current campaign for restructuring of Nigeria is nothing other than an euphemism for a review and the

jettisoning of the revenue allocation which many perceive as unjust and unfair having been serving the interest of the dominant ruling elite with unfettered access to state power at the centre in Abuja (Suberu, 2009; Uche & Uche, 2004)

Nevertheless, apart from the centrally appropriated federal allocation, the three tiers of government have independent or Internally Generated Revenue (IGR). The utilization of this IGR in addition to revenue allocation seems to be the concern of Adebisi (2005) James & Noblis (2009) and Ering, Otu & Archibong (2014). Revenue is one factor, the level of infrastructure and project development is another issue which raised the concern of whether the expenditure profile has justified the revenue accruals. Similarly, the concern of Olusola (2011); Olusola & Siyanbola (2014) Mbanefo; & Bello-Imam (2013) is how the local governments can improve their ability on internally generated revenue (IGR) which is believed to be more realistic, predictable and free from the crude oil price fluctuations and volatility.

However, it is an argument of to whom much is given much is expected. On ways of improving local government revenues, issues like the need to train valuation staff and tax assessors, provision of good infrastructural facilities, staff motivational incentives, establishment of cottage industries, promotion of small and medium scale enterprises (SMES), accountability and transparency, citizenship reorientation and mass mobilization for civic duties and responsibilities were highlighted (Mbaya, Audu, & Aliyu, 2014; Olofin, Olubusayo, Bello, Salisu & Olalekan, 2012; Oluwatobi & Ogunrinola, 2011).

In similar veins are the concerns of Uhumwangbo & Stanley (2013); Oviasuyi, Idada & Israojie, (2010) on the challenges of uneven resource allocation and income distribution of local governments. The seven hundred and seventy four (774) local governments created were without

regard to their economic viability and sustainability; mainly created just to serve strict political ends. While some had the resources endowment, others are resources laggard/constrained councils. Needless to mention the challenge of undue interference from states government which perceive the councils as extension of state houses having been created mainly to feather the economic and political nests of states governors. No wonder why elections were not conducted into the councils and governors appointed loyalists into the councils as patronage. There is also the challenge of overheated staff many on the pay roll of the local governments without any corresponding duty justify the bill which the councils had to pick at the end of the month (Atakpa, Ocheni & Nwakwo, 2012; Adebayo 2014 and Odueme, 2011).

On the phenomenon of rural economic development, there is no single definite or idea that can succinctly capture it because the indices of development are multi-dimensional and intersectoral (Ering, 2011; Nyagba, 2009). It may stem from the perspective of positive changes in structures, attitudes, institutions as well as advancement in economic activities, poverty eradication and the reduction of inequality (Saheed, 2010; Ojonena & Samuel, 2013) A concept that is often used for development through a misnomer is growth. A society can experience economic growth without economic development. For example, the national income in Nigeria has over the years been increasing without a corresponding increase in Gross Domestic Product (GDP) (Bruckner, 2010; Aruwa, 2011; Akujobi & Kalu, 2009).

In other words, development is only meaningful when it involves everyone and addresses the challenge of unequal income distribution; promotes social justice and pandemic socio-economic transformation on a sustainable and dynamic basis. Rural economic development would them involve issues of improvement in rural living conditions and



standard of living of the rural populace which could be as a result of the provision of basic amenities, infrastructural facilities improved agricultural productivity and extension service as well as massive employment generation for rural dwellers. This is the position of Usman, 2011, Akeem, 2011; Dang, 2013). In fact, whatever socio-economic activities that would checkmate rural-urban migration productive and gainful employment are all ideas in rural economic development (Obeta, & Okide, 2012).

Furthermore, Arnold (2013); Rist, Beily & Martins (2011) were of the view that for rural development to be meaningful, the people concerned must claim it, own it and drive it. This is because externally driven rural economic developmental initiatives are often fraught with dangers and contradictions and may not be durable. This is as a result of the challenges of cultural incongruence and socio-economic and political asymmetries (Lawler III, 2013; Igabaekamen, 2014).

In other word rural economic development can only be ingenious if it mobilizes local resources in order to gain commitment. This is because it is a long term process rarely amenable to seeking results through short cuts (Ubels, Naa-Aku & Fowler, 2010; Brough, 2012; Gantz, Ichiniowski & Shaw, 2002). This position of strength and ability, though an organic approach however may portend the danger of institutionalizing parochialism by running a closed system. Consequently, auto centric development though ideal and desirable might prove a mirage and a utopia in a world that is currently a global village. Moreover, in an increasingly globalised community, time and space are completely obliterated (Alo,

2010; United Nations, 2012; Carden, 2012)

### 3.0 Methodology

This study attempted to examine the effects of Revenue Generation on Rural Economic Development in Orolu Local Government Area (LGA), Ifon-Osun, Osun State Nigeria. The methodology of study is primary relying essentially on administration of questionnaire on one hundred and fifty (150) respondents selected through systematic purposive sampling techniques in the four major quarters of the North East, West and South that make up the communities. The area of study has been chosen because of its uniqueness as a food basket in Osun State; the agrarian potentiality when marched with appropriate cottage industries could checkmate the influx of its productive folks into Osogbo, the state capital. The indigenes are also famous in their skill for historical, traditional cloth dyeing, weaving, blacksmithing, soap making and other sundry indigenous and medium scale enterprises. The town has the famous Ifon-Orolu market which serves as a trade centre as well as nodal outpost to neighboring states like Lagos, Ogun, Osun, Ekiti, Ondo and Kwara just to mention few. The OLGA has a population of 103,077 and a land mass of 80km (National Population Commission, 2006) One hundred and fifty (150) questionnaire were administered out of which ninety two were retrieved representing 61.3% retrieval rate.

*Therefore, data analysis and computation in tables will be based on ninety two (92) questionnaire retrieved. Therefore, the questionnaire distributed, duly answered and returned, were used for final analysis.*

**Data Presentation and Analysis**

**Table 4.1 Retrieval Rate of Questionnaire**

Rate of Distributions	Frequency	Percentage (%)
Returned	92	61
Unreturned	58	39
<b>Total Administered</b>	<b>150</b>	<b>100</b>

Source: Field Survey, 2017

The table 4.1 reveals that out of the 150 total questionnaire administered 92 at 61.3% were returned while 56 at 39% were not returned for analysis.

**Table 4.2: Gender Distribution of Respondents**

Respondents	Frequency	Percentage (%)
Male	55	59.8
Female	37	40.2
<b>TOTAL</b>	<b>92</b>	<b>100</b>

Source: Field Survey, 2017

Table 4.2 shows that 55 respondents representing 59.85 were males while 37 respondents representing 40.2 % were females. This shows that there were more males than female respondents which imply that males have greater access to gainful employment more than females and were better positioned to affect or be effected by rural economic development (Renuka & Anil, 2014).

**Table 4.3: Age Distribution of Respondents**

Age Bracket	Respondents	Percentage (%)
20 – 30	16	17.3
31– 40	32	35
41 – 50	20	21.7
≥51	24	26.1
<b>Total</b>	<b>92</b>	<b>100</b>

Source: Field Survey, 2016

Table 4.3 shows that 16 respondents representing 17.4 % were from the age bracket 20 – 30 while 32 respondents representing 35% were from the age bracket 31- 40; whereas 20 respondents representing 21.7% were of the age bracket 41-50, and 24 respondents representing 26% were from the age bracket 51 and above. This shows that most of the respondents were of middle age with capacity to affect or be affected by rural economic development. This age

group are known to be energetic and therefore expected to be resourceful in exploring and exerting efforts on rural

development( Nugent and Segman 2015; Tanveer, Akbar, Gill & Ahmed 2013)

**Table 4.4: Marital Status of Respondents**

Status	Respondents	Percentage (%)
Single	19	21
Married	62	67
Widow	11	12
<b>Total</b>	<b>92</b>	<b>100</b>

Source: Field Survey, 2017

Table 4.4 depicts that 19 respondents representing 21% were single while 62 respondents representing 67% were married. While the widow rate is 11 at 12 %. This signifies that most of the respondents were married. The correlation between marriage and emotional stability,

responsibility and reliability have been established in the works of scholars which indicates that majority in Orolu LGA were positioned by virtue of being married to be economically productive; thus effecting and affecting rural economic development (Sajilen, Noir, & Shenan 2015).

**Table 4.5: Academic Qualification of Respondents**

Qualification	Frequency	Percentage (%)
SSCE	9	10
OND/NCE	23	25
B.Sc/HND	46	50
M.Sc/PhD	14	15
<b>Total</b>	<b>92</b>	<b>100</b>

Source: Field Survey, 2017

Table 4.5 shows that 9 respondents were holders of SSCE represent 10% while 23 respondents representing 25% were holders of OND/NCE, while 46 respondents representing 50% are holders of BSc/HND, whereas 14 respondents representing 15% were holders of M.Sc.

This explains that most of the respondents were well educated and since there is relationship between education and economic development, majority are well positioned to effect and be affected by rural development (Perkins, 2006; Huczynski & Buchanam, 2007).

**Table 4.6 Source Of Internally Revenue Generated (IGR) in Orolu Local Government**

Sources	Frequency	Percentage (%)
Taxes	68	73.9
Local License	24	26
<b>Total</b>	<b>92</b>	<b>100</b>

Source: Field Survey, 2017

Table 4.6 shows that 68 (73.9%) of the respondents were of the opinion that taxation constitutes the main source of revenue, 24(26%) indicates that of Local license. It implies that taxation is the main source of IGR of the local government.

**Table 4.7 Internally Generated Revenue Collected By Orolu Local Government**

Responses	Frequency	Percentage (%)
Social	40	43
Economic	22	24
Workshop & Survey	18	20
Health	12	13
<b>Total</b>	<b>92</b>	<b>100</b>

Source: Field Survey, 2017

Table 4.7 shows the source of internally generated revenue, 40 respondents at 43% agreed that the greatest was the social means, 22 respondents at 24% supported that it came through the economic means, 18 respondents at 20% support that it came through workshop & survey, 12 respondents at 13% respondents agreed that it came through health. This implies that majority of the respondents believe the source of the LGA IGR was through social means.

**Table 4.8 Orolu Local Government Plans To Provide More Revenue Source**

Responses	Respondent	Percentages (%)
Yes	70	76.1
No	22	23.9
<b>Total</b>	<b>92</b>	<b>100</b>

Source: Field Survey, 2017

Table 4.8 indicate that 70 (76.1%) of the respondents agreed that plans were on the way to identify additional sources while 22(23.9%) of the respondents agreed that there was no plan for additional sources of revenue.

**Table 4.9 Shows the ability of Orolu local government toward meeting up with targeted revenue over the year**

Responses	Respondent	Percentages(%)
Yes	14	15.2
No	78	84.8
<b>Total</b>	<b>92</b>	<b>100</b>

Source: Field Survey, 2017

Table 4.9 shows that 78 (84.8%) of the respondents agreed that the local government was unable to meet its estimated revenue target while 14 (15.2%) show that the local government was able to meet its targeted revenue. This implies that majority believed the local government was unable to realize their estimated revenue.



4.10 Estimated Result for effects of IGR on OLGA Developments

Constant	Coefficients	t statistic
$\beta_0$	- 044.5	7.196
$\beta_1$	24.019	2.614
$\beta_2$	-.010	-.086
$\beta_3$	-12.665	-2.46
$\beta_4$	2.342	2.561

Source: Field Survey, 2017  
R = 0.563, R<sup>2</sup>= 0.317

F-statistic = 4.060, Durbin Watson = 2.020

The correlation coefficient result (R= 0.563) shows that there is a moderate positive correlation between OLGA Development and all the (IGR) internal generated revenue considered in this research. A coefficient of determination result (R<sup>2</sup> = 0.317) indicates that only 31.7 percent variations in OLGA Development is being explained by the independent variables. This means that the remaining

68.3 percent is due to other important factors/revenue sources apart from the ones considered for Local Government development

**Ho 1.** : There is no significant relationship between revenue generation and economic development in the study area

A summary of the results of the Ordinary Least Square (OLS) regression is presented in the table below:

**Table 4.11 Dependent Variable: RD Method: Least Squares Sample: 1 10 Included observations:10**

Variables	Coefficient	Std error	t-statistics	prob
C	0.443806	0.006321		0.0000
TR	1,19E-05	1,80E-06	7021097	0,0002
R <sup>2</sup>	0.84534	Mean dependant var	6.652666	
Adjusted R <sup>2</sup>	0.82 6011	Std dependant var	0.482600	
S.E of regression	0.007441	Akaike criterion	0.017840	
Sum squared resid	0.000443	Schwarz criterion	-6786649	
Log likelihood	35.93325	f-statistics	-6.726132	
Durbin Watson Stat	2.124961	prob (f-statistics)	43.72473	0.000167

RD = 0.44 + 1.19\*TR + ei ----- regression equation

Adjusted R<sup>2</sup>= .82

RD = dependent variable

RG = independent variable

The analysis revealed that revenue generation has positive and significant effect on RD (Rural development). The coefficient of determination  $R^2$  is 0.845, meaning that 84.5% of the variability in RD (dependent variable) was influenced by the RG (independent variable). Hence, 15.5% variability in RD was explained by other factors outside RG. The f-statistics of 43.72733 shows overall significance of the regression model. F-sig. level of .0001 is less than 0.05 which suggests that  $H_0$  is not true. Therefore,  $H_0$  is rejected while  $H_1$  is accepted. Therefore, revenue generation has significant and positive influence on rural development thus revenue generation is an instrument for rural economic development in Nigeria.

**Hypothesis 2:**

$H_{02}$ : There are no significant constraints militating against revenue generation in the study area

Variables	Coefficient	Std error	t-statistics	prob
C	-17052.15	9365.446	-1.820751	0.1061
Fm	19.56056	2.666072	7.336847	0,0001
$R^2$	0.870612	Mean dependant var		4672166
Adjusted $R^2$	0.82 6011	Std dependant var		2.889837
S.E of regression	0.007441	Akaike criterion		21.63066
Sum squared resid	0.000443	Schwarz criterion		21.69118
Log likelihood	35.93325	f-statistics		53.83952
Durbin watson stat	1.945697	prob (f-statistics)	43.72473	0.000081

$fm = -17052.15 + 19.56*TR + ei$ --- regression equation

Adjusted  $R^2 = .854$

RG = Revenue generation

FM = independent variable

**Intpretation**

The analysis for Hypothesis 2 revealed that there are factors militating (Fm) against revenue generation and it has a positive and significant effect on (RD) rural development. The coefficient of determination  $R^2$  is 0.870, meaning that 87% of the variability in RD (dependent variable) was influenced by the RG (independent variable). Hence, 13%

variability was explained by other factors outside RG. The F-statistics of 53.82932 shows overall significance of the regression model. F-sig. level of .000081 is less than 0.05 which suggests that  $H_0$  is not true. Therefore, there are factors militating against revenue generation in Orolu Local Government area. Hence we reject  $H_0$  and accept  $H_1$ .

## **5.0 SUMMARY, CONCLUSION AND RECOMMENDATION**

This study attempted an evaluation of the effects of RG IN RD in Orolu LGA. It identified the socio-economic characteristics of the respondents which were the main determinants of rural development in OLGA.

The statistical analysis used in this study revealed that RG had significant effect on RD in Orolu Local Government, Ifon-Osun, Osun State. It was also discovered that there were significant constraints militating against internally generated revenue drive of the local government.

### **5.2 Recommendations**

- Local governments should adopt the principles of financial management in its operation, so that there will be efficient and judicious fund utilization. These principles include: accountability, transparency and integrity.
- There should be a sound internal control system in the local government council. This could be achieved by establishing an independent internal audit unit to watch over councils revenue flow, through regular inspection and audit of all revenue earning books obtained in the council against the receipt books issue notes and receipt books register.
- The local government should embark on the establishment of some cottage industries which will provide employment opportunities to the people. There should also be linkage between agricultural ventures like crop farming and economic programmes; a sort of forward and background integration so that ready made market is guaranteed for the food crops while raw materials being produced from the farm can be

processed and have their values added in the cottage industries.

- There should be provision of social services like good wards, basic health facilities, environmental sanitation, town halls, street light, water supply. These facilities should be of high quality and by doing this, the people's interest will be geared towards giving their maximum support to the governments at all facets where such cooperation is required. Once, some of their interests are taken care of, the people will feel committed to pay to the local government all revenue due from them and this will improve the revenue strength of the local government in question.
- Staff motivation: Workers should be encouraged so that they can put in their maximum services and when this is done, there will be increase or solid improvement in revenue collection. Training of workers for knowledge enhancement should be one of such motivational factors
- All loopholes and financial conduit pipes should be plugged. Effective administration designed to enhance revenue generation requires both the commitment of government and the citizenry. It is not a process to be rushed into and as such, caution is needed particularly in respect of getting the right balance of policies and laws to guide revenue generation.
- There should be provision of appropriate logistics and incentives to the revenue collectors and the intensification of staff training and development by emphasizing on the benefits of the payment of taxes to the Assembly.
- There should be an adequate, yet equitable system of penalties which should be effectively applied



against graft and corrupt practices at the local government level.

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