

THE MEDIATING Effect of Financial Management Practices on the Relationship between Microfinance Financial Services and Socioeconomic Performance of Households in Davao REGION

Radny Collin L. Remis¹, Presentacion C. Acosta²

¹Davao de Oro State College
radny.remis@gmail.com

²Graduate School Department, University of the Immaculate Conception, Davao City, Philippines
pacosta@uic.edu.ph

ABSTRACT

Household socioeconomic performance assessment of microfinance recipients is vital in ensuring effective and beneficial programs, informed policies, and improved lives. This study aimed to determine the mediating effect of financial management practices (FMP) on the relationship between microfinance financial services (MFS) and household socioeconomic performance (HSP) of microfinance recipients in Region XI. Employing the explanatory sequential QUAN-QUAL mixed methods, purposive sampling with snowball sampling, and thematic analysis, data were obtained from 400 respondents in Region XI. Medgraph was utilized to determine the mediating effect of FMP on the relationship between MFS and HSP, which was found to be a significant partial mediation in this study. Through interviews and focus group discussions, data were integrated with the findings in the quantitative aspect of the study. The participants confirmed the variables' relationships and functions in the mediation model. With the confirmation, it can be stated that there is substantial evidence that financial management practices are one of the reasons microfinance financial services can influence the household socioeconomic performance of microfinance recipients in Region XI, as demonstrated in the partial mediation model.

KEYWORDS: *Business management, microfinance financial services, financial management practices, explanatory sequential design, Philippines*

INTRODUCTION

A household's socioeconomic performance is its ability to meet essential

needs and withstand economic challenges (Abdullah et al., 2021). Key factors include gross domestic product (GDP) growth, unemployment, income distribution, poverty, access to education and healthcare, social mobility, and living standards. GDP per capita and income inequality are linked in the Philippines, showing uneven economic growth (Miguel et al., 2022). Elite politics, institutional weaknesses, and public office abuse hinder socioeconomic development, limiting progress in poverty and inequality (Deinla & Dressel, 2019). Unemployment exacerbates poverty by reducing household income and increasing financial stress (Sinaga, 2020). Low-income households face limited access to resources, affecting health, education, and well-being (Rivera, 2020), leading to distress (Scrimin et al., 2022), conflict, emotional and social difficulties (Mishra et al., 2023), mental health issues, constant stress, and cognitive delays (McKenzie, 2019).

The socioeconomic performance of households is considered a crucial element of sustainable development; both public and private entities are continually formulating various microfinance and development approaches to address economic deprivation (Abdullah et al., 2022). Families with a high socioeconomic performance engage in more health-promoting behaviors (Fitzgerald & McKelvey, 2020), are more capable of earning a larger income, and usually exhibit greater financial literacy (Radianto et al., 2019). Moreover, high socioeconomic performance is linked to greater social capital through memberships in local community organizations and social networking connections, significantly benefiting household consumption expenditures, asset ownership, and poverty reduction (Jha & Kelley, 2023). Also, it plays a significant role in both community welfare and the country's economic growth as it directly influences the livelihood of populations and contributes to countries' economic development (Marshuk & Tsiptsyura, 2021). Furthermore, high household socioeconomic performance positively impacts income sources (López et al., 2018). It enhances one's self-efficacy, making them more confident in their abilities to achieve goals and improve their quality of life (Mazur et al., 2013). Ultimately, it is positively associated with better students' academic achievement (Broer et al., 2019; Hu et al., 2024), improved children and adolescents' cognition, dental and physical health (Levesque et al., 2021), improved healthcare utilization, and increased food security (Wardani et al., 2023), which are crucial in meeting essential life needs.

Several studies were conducted, which indicate the positive influence of microfinance financial services on the socioeconomic performance of

households (Dhungana et al., 2022; Dagos, 2021; Sawenja & Lwangale, 2020; Dang et al., 2018; Zaidi, 2017) mediated by financial management strategies (Abdullah et al., 2022). Koh et al. (2021) concluded that microcredit and microinsurance positively affect socioeconomic performance. Also, financial services can enhance the socioeconomic performance of disadvantaged households (Abdullah et al., 2021), and the effect is considerably more pronounced for long-term recipients than for new ones (Zaidi, 2017). Unterhalter (2020) underscored that these propositions are aligned with the United Nations SDGs for no poverty, zero hunger, gender equality, decent work and economic growth, and reduced inequalities.

There is a dearth of research on the socioeconomic effects of microfinance in the Philippines, particularly in Region XI, presenting an opportunity to explore its unique dynamics (Layaoen & Takahashi, 2022). There is also limited research on the mediating role of financial management practices in the relationship between microfinance financial services and household socioeconomic performance (Abdullah et al., 2022), which can be addressed by exploring how different financial management practices influence the effectiveness of microfinance financial services in improving household socioeconomic conditions. While microcredit is often the focus of microfinance studies (Lwesya & Mwakalobo, 2023; Rich, 2018), there is a gap in understanding the effect of other microfinance financial services, like microinsurance and savings, on household socioeconomic performance. The researchers have yet to encounter studies that cover households in the Davao Region as their research locale, employing an explanatory sequential mixed-methods research design, which makes this study unique. Ultimately, this study would fill in the gap by addressing one of the Davao regional development priority research agendas of 2023-2028: to promote financial inclusion and improve public financial management, specifically on analyzing the effect of microfinance services on households in the Davao Region (NEDA Region XI, 2023).

The research findings will be disseminated to the microfinance recipients, institutions, and the Microfinance Council of the Philippines. These findings would shed light on the effect of microfinance financial services, mediated by financial management practices, on their household socioeconomic performance. Also, the findings may serve as a basis for the National Economic and Development Authority (NEDA) in Region XI to initiate and implement programs and projects anchored in the Davao Regional Development Plan,

guiding the region towards inclusive development. Further, the researchers plan to disseminate the findings at national and international research conferences and publications. The researchers will participate in webinars to disseminate the findings to academic and professional audiences. The University of the Immaculate Conception Library will receive a copy of the study manuscript.

METHODS

This study employed a descriptive-correlational research design using mediation analysis. The study was conducted in the Davao Region, Philippines. The respondents were the 400 recipients of microfinance services, purposively selected from the five provinces in Davao Region. The sample size was computed using Slovin's Formula, based on the approximate 500,000 microfinance recipients in the region provided by the microfinance institutions and prorated based on the total number of microfinance recipients by province. They had to be recipients for at least three years or have availed of loans for at least five loan cycles. The study did not include recipients of microfinance services who have availed of them for less than three years. This study utilized two sets of research instruments adapted from various sources. The first survey tool was adapted from Koh et al. (2021) with items loading exceeding 0.7, composite reliability greater than 0.8, and discriminant validity higher than 0.7, signifying that all constructs' items loading, reliability, and AVE are above recommended levels.

Microfinance financial services were composed of three indicators—microcredit (5 items), savings (5 items), and microinsurance (5 items). The survey tool utilized a five-point Likert scale: 5 strongly agree, 4 agree, 3 moderately agree, 2 disagree, and 1 strongly disagree. The status of microfinance services was interpreted using the following matrix.

On the other hand, the survey tool used for financial management practices and household socioeconomic performance variables was adapted from the study of Abdullah et al. (2022) with a Cronbach's alpha of greater than 0.8.

The financial management practices covered six domains, including basic finance (6 items), budgeting and cash management (5 items), credit management (5 items), risk management (5 items), and opportunity awareness (5 items). The status of financial management practices was interpreted as follows:

Household socioeconomic performance comprises four indicators,

including the household's social well-being satisfaction level (7 items), provision of opportunities (3 items), household's economic performance (5 items), and household's entrepreneurial success (7 items). The status of the socioeconomic performance of households was interpreted using the table below.

The University of the Immaculate Conception-Research Ethics Committee reviewed the manuscript, bearing the protocol code GS-FB-08-24-0145. Then, the researchers wrote to the branch managers' office of the selected microfinance institutions, seeking permission to conduct the study. Following the Branch Managers' approval, the prospecting of the participants was assisted by the account officers employed in the microfinance institutions. Before administering the survey, the researchers comprehensively oriented the account officers on the purpose of the study and explained to them the content of the informed consent form. The researchers informed them about the respondents' rights and that their participation was voluntary, and the researchers ensured that the respondents signed the ICF. Then, the collection of data followed, which was enumerator-assisted. The data collection took place from September 2024 to November 2024. Likewise, this study utilized descriptive and inferential statistical tools for data analysis and interpretation.

RESULTS

The Status of Household Socioeconomic Performance, Microfinance Financial Services and Financial Management Practices

Table 1.

The Status of the Household Socioeconomic Performance, Microfinance Financial Services, and Financial Management Practices

Latent Variables/ Observed Variables	Standard Deviation	Mean	Descriptive Level
Household Socioeconomic Performance	0.56	4.04	High
Household's Social Well-being	0.57	4.18	High
Households' Economic Well-being	0.62	3.99	High
Household's Entrepreneurial Success	0.82	3.81	High
Microfinance Financial Services	0.51	4.20	Very High
Microcredit	0.73	4.07	High

Savings	0.53	4.41	Very High
Microinsurance	0.66	4.11	High
Financial Management Practices	0.54	4.16	High
Basic Finance	0.59	4.16	High
Budgeting and Cash Management	0.66	4.18	High
Credit Management	0.59	4.21	Very High
Risk Management	0.71	3.99	High
Opportunity Awareness	0.64	4.26	Very High

The data in Table 1 reveal the status of Household Socioeconomic Performance, Microfinance Financial Services, and Financial Management Practices through descriptive statistics of the means and standard deviations.

The household socioeconomic performance yielded an overall mean of 4.04, which is described as high. This indicates that the socioeconomic performance of households is satisfactory. All indicators' range of category means is high, implying a positive overall household socioeconomic performance. This result generally connotes that the household socioeconomic performance of microfinance recipients is satisfactory. Dhungana (2023) and Dhungana et al. (2022) found that a household's economic and social conditions significantly improve after availing of microfinance services, leading to enhanced livelihoods and living standards are supported by this result in the high status of household socioeconomic performance. Also, this result corroborates the findings of Abdullah et al. (2022) that high levels of household socioeconomic performance align with the positive effects of microfinance services on enhancing entrepreneurial competencies and financial management practices.

All the indicators in the household socioeconomic performance variable yielded a high rating (satisfactory), suggesting that microfinance recipients have positive perceptions of their income, savings, living standards, employment, children's education, health, daily goods supply, business opportunities, financial resources for education, personal development, financial stability, security, and well-being. This implies that microfinance services effectively contribute to recipients' overall economic well-being and quality of life, enhancing their ability to meet daily needs and invest in their future.

Additionally, the high ratings indicate improved financial situations, increased income, assets, savings, household expenditure, confidence in their

financial future, successful entrepreneurial ventures with growth in profits, sales, employees, products, buyers, and skills and technology improvements. These outcomes imply that microfinance supports immediate financial stability and fosters long-term economic growth and entrepreneurial success, leading to sustainable development and increased household economic resilience.

The high-level result of a household's entrepreneurial success and social and economic well-being corroborates the findings of Al-Amin (2022) that social well-being and economic empowerment are strongly linked to access to microfinance and improved access to basic needs such as nutritious food, land, healthcare, and education for children. This finding also supports Thapa and Chowdhary's (2022) and Ali and Cook's (2020) assertion that microfinance programs increase business turnover, investment, savings, and social improvements, empowering women entrepreneurs and contributing to community development. However, this result refutes the findings of Atiase and Dzansi (2019), who highlight challenges such as loan inadequacy and cumbersome application procedures, which can hinder business expansion and employment generation for entrepreneurs.

More so, the microfinance financial services reflected an overall mean of 4.20, which is very high. This indicates that household's microfinance financial services are very satisfactory. Among the three indicators of microfinance financial services, savings obtained a rating of 4.41 (very high), while microcredit has the lowest mean of 4.07, which is described as high. Overall, microfinance financial services generated an overall mean of 4.20, which is described as very high, indicating that microfinance household recipients are very satisfied with the services provided by microfinance institutions. This result supports the findings of Chikwira (2022) that microfinance has emerged as an essential tool for providing financial services to households, especially those in lower income brackets or poor entrepreneurs, focusing on fostering self-sufficiency and economic stability.

Likewise, this very high rating is congruent with the findings of Kausar and Zubairi (2022) that microfinance enables low-income clients, particularly women, to access financial services that traditional banks might not offer, thereby playing a vital role in financial inclusion. It is also parallel to the contentions of Mina and Ansari (2022) that microfinance's capacity to provide financial security through self-help groups bridges the gap for those with limited access to formal banking services.

The savings indicator obtained the highest category mean of 4.41, which is very high. This outcome suggests that microfinance recipients believe their savings levels are very satisfactory. This enables them to allocate more resources towards health services, invest in children's education, repay loans effectively, manage consumption needs consistently, and generate wealth, improving financial stability and overall well-being. This result is in congruence with the assertions of Shaikh (2022) that savings, facilitated by microfinance, can provide households with the necessary funds for opportunities such as starting a business or investing in education or health align with this outcome. Also, this aligns with the findings of Maurya (2023) that savings services offered by microfinance institutions are a key mechanism for enhancing financial inclusion.

However, the very satisfactory result of savings contradicts the findings of Kundu (2013) that participation in a microfinance program did not significantly increase personal savings compared to non-participating households, implying that other factors, including income levels, financial literacy, and cultural attitudes towards saving, play a more significant role in influencing personal savings rates.

On the other hand, the microcredit indicator generated the lowest category mean of 4.07, described as high, indicating that the microfinance recipient's microcredit level is satisfactory, which significantly enhances business growth and productivity, facilitates the start of new enterprises, supports children's education, and improves access to healthcare, thereby contributing to overall economic and social well-being. This result corroborates the findings of Savaliya (2017) that microfinance, especially microcredit, is vital for poverty alleviation among the substantial agriculture-dependent rural population, as it significantly contributes to providing financial services to low-income individuals to improve their living standards. This outcome also aligns with Abdullah et al. (2022) findings that microcredit positively impacts socioeconomic performance, indicating that microfinance significantly improves households' socioeconomic status by enhancing entrepreneurial competencies and financial management practices.

However, the satisfactory microcredit level refutes Duong & Thanh's (2014) findings that while microcredit has increased income and consumption for rural households in Vietnam, its impact on the income of impoverished rural people was less pronounced, highlighting the importance of various socioeconomic factors in accessing microcredit programs.

In addition, the mediating variable, financial management practices, generated an overall mean of 4.16, which was described as high. This signifies that households' financial management practices are favorable. Of its five indicators, opportunity awareness obtained a very high rating of 4.26, while the lowest indicator is risk management, with a mean of 3.99 indicating high. The standard deviation is less than 1.0, indicating the responses' consistency. This result implies that the financial management practices of microfinance recipients are favorable. This result backs the claims of Kauser & Zubairi (2022), highlighting that microfinance companies target low-income clients, predominantly women, with loans for microenterprise development, aligning with favorable financial management practices by empowering them to manage their finances effectively. This result also substantiates the mandate of SEC (2020) that at least 70% of microfinance loans be utilized for income-generating activities, highlighting the critical link between financial management practices and the objective of promoting financial independence.

Opportunity awareness is the indicator that generated the highest category mean of 4.26, which is very high. This implies that the level of opportunity awareness viewed by the microfinance recipients is very favorable. It suggests they are highly proactive in seizing financial opportunities, regularly saving, investing, seeking investments, leveraging marketing, and diversifying, contributing to financial growth and stability.

The findings of Jamaluddeen and Alam (2022) that microfinance influences social, economic, and entrepreneurial empowerment in underserved communities, with studies exploring various facets such as social empowerment, business growth, and the integration of microfinance with broader economic and societal objectives corroborated the very high opportunity awareness of microfinance recipients. Also, this result aligns with the findings of Mphaka (2017) that a sustainable microfinance institution has the potential to instigate social transformation by offering microfinance loans. With this, they can help their members recognize and capitalize on various opportunities, leading to greater economic and social empowerment.

The fourth indicator, risk management, yielded the lowest mean of 3.99 (high), indicating that microfinance recipients perceived their risk management level as favorable, implying that they are highly effective in risk management, ensuring asset insurance, minimizing risks, conducting assessments, establishing procedures, and creating safe environments, contributing to business security

and resilience.

The risk management's high-level result of microfinance recipients is consistent with the findings of Meshesha (2014) that the impact of effective credit management practices on loan repayment performance underlines the importance of well-structured credit policies and practices in ensuring successful microfinance outcomes, thereby creating a supportive environment that helps members manage their loans, effectively, reducing the overall risk and ensuring successful outcomes. Also, this finding validates Ramkumar et al. (2015) assertion that institutions offering microfinance have a significant role in instilling financial discipline and imparting knowledge about repayment obligations to borrowers.

Mediating Effect of Financial Management Practices on the Relationship between Financial Management Practices and Household Socioeconomic Performance.

All correlations were significant for the three variables, as illustrated in Table 2.1. The results indicate a significant relationship between microfinance financial services and household socioeconomic performance ($r = .560, p < .05$). Additionally, it was found that there is a significant correlation between financial management practices and household socioeconomic performance with a correlation coefficient of $.739 (p < .05)$. Furthermore, a significant relationship was also observed between microfinance financial services and financial management practices with a correlation coefficient of $.626 (p < .05)$.

Table 2.1.

Correlations between Variables

Pair	Variables	Correlation Coefficient	p-value	Decision on H_0
IV and DV	Microfinance Financial Services (IV) and Household Socioeconomic Performance (DV)	.560	.000	Reject
MV and DV	Financial Management Practices and Household	.739	.000	Reject

IV and MV	Socioeconomic Performance Microfinance Financial Services and Financial Management Practices	.626	.000	Reject
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* $p < .05$

Table 2.2 employs regression analysis to discover the inter-relationships among the variables, aiding in verifying the beta coefficients for mediation analysis. The data from this table served as input for the MedGraph. A third variable must meet three specific criteria to establish a true mediation, as Jose (2003) outlined. The results in Table 2.2 are categorized into Steps 1, 2, and 3.

In Step 1 (Path C), Microfinance Financial Services significantly predicts Household Socioeconomic Performance ($B = .615, p < .001$), indicating that each unit increase in microfinance financial services corresponds to a .615 increase in household socioeconomic performance. In Step 2 (Path B), it is revealed that Financial Management Practices, as the mediating variable, also significantly predict Household Socioeconomic Performance ($B = .773, p < .001$). This suggests that each unit increase in financial management practices can lead to a .773 increase in household socioeconomic performance.

Moreover, Step 3 (Path A) shows that Microfinance Financial Services significantly predict Financial Management Practices ($B = .657, p < .001$), which denotes that for every unit increase in microfinance financial services, it can result in a .657 increase in financial management practices.

Furthermore, Step 4 revealed an r^2 of .562, which indicates that 56.2 percent of the variation in household socioeconomic performance can be attributed to the combined influence of microfinance financial services and financial management practices. Hence, 43.8 percent of the variation is not covered in this study and is attributable to other factors not enclosed in the model. The significance of the three paths warranted MedGraph's use of the Sobel z-test.

Table 2.2

Data Entry for the Different Paths

Independent Variable (IV)	Microfinance Financial Services
Dependent Variable (DV)	Household Socioeconomic Performance
Mediating Variable (MV)	Financial Management Practices

STEPS

- Path C (IV and DV)

Household Socioeconomic Performance Regressed on Microfinance Financial Services

B (Unstandardized Regression Coefficient)	.615
SE (Standard error)	.046
Significance	.000

- Path B (MV and DV)

Household Socioeconomic Performance Regressed on Financial Management Practices

B (Unstandardized Regression Coefficient)	.773
SE (Standard error)	.035
Significance	.000

- Path A (IV and MV)

Financial Management Practices Regressed on Microfinance Financial Services

B (Unstandardized Regression Coefficient)	.657
SE (Standard error)	.041
Significance	.000

- Combined Influence of MV and IV on DV

Household Socioeconomic Performance Regressed on Financial Management Practices and Microfinance Financial Services

Financial Management Practices:

B (Unstandardized Regression Coefficient)	.669
SE (Standard error)	.045
Beta (Standardized Regression Coefficient)	.639

Part Correlation	.498
Microfinance Financial Services:	
Beta (Standardized Regression Coefficient)	.160
Part Correlation	.125
Total R Square	.562

In fact, as a matter of triangulation, further mediation analysis was made involving such a test to assess the significance of the mediation effect. The Sobel z-test in Figure 5 generated a value of 10.898646 ($p < 0.01$), which indicates that financial management practices have significantly mediated the relationship between microfinance financial services and household socioeconomic performance. The model indicates that microfinance financial services strongly influence household socioeconomic performance by a total of .560 with the inclusion of financial management practices. This indirect influence passes through financial management practices to affect household socioeconomic performance. It can be seen in the graph that .560 is reduced to .160 in the subsequent regression.

Specifically, this indicates that the total effect of .560 is due to the presence of the mediating variable. When the mediating variable is removed, the effect is no longer .560. The 95 percent confidence interval confirms that significant mediation has occurred. The small standard error (SE) of .04033 is calculated by subtracting the lower limit (.36049) from the upper limit (.51858) and dividing the difference by 3.92 (a constant). The SE value represents the estimate's precision, with a smaller SE indicates a more precise estimate. The total effect (.560) reflects the raw correlation between microfinance financial services and socioeconomic performance.

In Table 2.3, the direct effect (.160) represents the correlation between microfinance financial services and socioeconomic performance when financial management practices are included in the regression. The ratio index is 71.4 percent, calculated by dividing the indirect effect (.400) by the total effect (.560).

By applying Jose's (2003) steps to test the mediation of financial management practices, the researchers demonstrated that the mediation is significant but only partial. This implies that financial management practices cannot be definitively claimed as the sole reason the microfinance financial

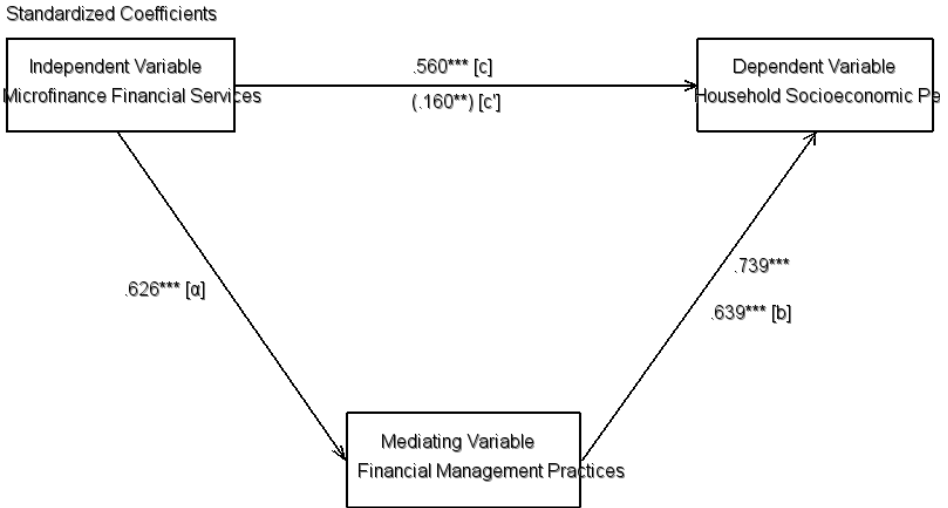
services influence the household socioeconomic performance of microfinance recipients. However, it does indicate that financial management practices are one of the factors that can affect the participants' household socioeconomic performance.

Table 2.3

Results of Mediation Analysis

Significance of Mediation	Significant	
Sobel z-value	10.898646	$p = <$
0.000001		
95% Symmetrical Confidence Interval		
Lower	.36049	
Upper	.51858	
Unstandardized indirect effect		
a*b	.43953	
SE	.04033	
Effect size Measures		
Standardized Coefficients		
Total	.560	
Direct:	.160	
Indirect:	.400	
Indirect to Total Ratio:	.714	

Figure 1
Mediation Model



NOTE: The numerical values in the parentheses are beta weights taken from the second regression and the other values are zero order correlations.

Significant and positive relationship between Microfinance financial services and household socioeconomic performance implies that the services such as microcredit, savings, and microinsurance received by the members of microfinance institutions influence their household’s socioeconomic performance. This relationship validates the assertions of Dayo et al. (2023) that access to microfinance financial services, such as microcredit, savings, and microinsurance, profoundly positively affected women's socioeconomic status in Sindh and Aslam et al. (2018) that a positive relationship between microfinance services and households’ socioeconomic performance highlights the essential role of microfinance in maintaining or enhancing the living standards of the less affluent.

Moreover, this result is consistent with the findings of Al-Amin (2022) that microfinance facilitates households in accessing funds for diverse needs, significantly improving their living conditions and creating opportunities for investment in assets and education, thus contributing to socio-economic development. The findings of Dagos (2021) microfinance services positively influence socioeconomic performance, like reduced poverty, enhanced

acquisition of assets, and improved lifestyles, indicating microfinance's transformational potential at the household level validated this outcome.

The mediating effect of financial management practices on the relationship between microfinance financial services and household socioeconomic performance is congruent with the findings of Abdullah et al. (2022) that financial management practices positively influence socioeconomic performance through microfinance services, acting as a mediator in this relationship. In addition, financial management practices, including financial risk management (Jerono & Olweny, 2023) and diverse financial services like loans, deposits, and savings accounts (Vishwakarma & Mujjoo, 2023), significantly mediate the relationship between microfinance services and socioeconomic performance. Further, this is aligned with the position of Sharma and Sharma (2017) that microfinance financial services mediated by financial management practices were found to raise income levels and improve living standards.

The mediation model, created using MedGraph, indicates that microfinance financial services affect household socioeconomic performance, especially when financial management practices are included. In this model, the indirect effect is very strong (.400), indicating that financial management practices mediate a large portion of the relationship between microfinance financial services and household socioeconomic performance. The direct effect (.160) is relatively small, suggesting that most microfinance financial services on household socioeconomic performance are channeled through financial management practices. Hence, the relationship that persists without financial management practices is weaker. This suggests partial mediation, as financial management practices only partially explain the link between microfinance financial services and household socioeconomic performance. The study's findings align with Jose (2003), who noted that full mediation is rare in studies involving mediating variables, with partial mediation being more common. While financial management practices are not the sole factor in how microfinance financial services affect household socioeconomic performance, they are also one of the contributing factors.

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