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Profit Sharing, Principal Repayment, and Income Allocation in Informally Financed Rural Service Enterprises

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ABSTRACT

Informal financing arrangements may combine profit-sharing rules with principal repayment, making the distribution of business income less transparent than stated sharing ratios suggest. This study examines the allocation of reported net business income between operators and a financier in five mobile rice milling enterprises in Paya Gambar Village, Indonesia. A descriptive case study was conducted using interviews, questionnaires, field observations, and available documentation collected in May and June 2023. Reported annual revenue and cost totals were analyzed descriptively, while profit entitlements and principal repayments were used to reconstruct financing allocations. Mean reported annual revenue, costs, and net business income were IDR 49,958,400, IDR 8,020,333, and IDR 41,938,067 per enterprise, respectively. Although respondents reported a 30:70 division of net income between the financier and operators, the financier's mean calculated profit entitlement of IDR 12,581,420, combined with IDR 11,099,820 in reported principal repayment, resulted in a reconstructed financier allocation of IDR 23,681,240, representing 56.5% of aggregate net income. The corresponding reconstructed mean operator balance was IDR 18,256,827. These findings highlight the importance of distinguishing profit entitlements from principal recovery when evaluating income allocation under informal financing arrangements. However, incomplete cost documentation and unverified payment timing, loss allocation, and default provisions limit conclusions about actual financial transfers and contractual classification.

Keywords: Income allocation; Informal financing; Principal repayment; Profit sharing; Rural service enterprises

1. INTRODUCTION

Rice milling converts paddy into marketable rice and creates income from processing services and by-products. Milling performance depends on processing quality, capacity, cost management, and marketing opportunities (Prom-u-thai & Rerkasem, 2020; Rachmat et al., 2020; Laurent et al., 2025). Indonesian supply-chain and industrial studies also identify coordination and operating constraints (Nurmahdy et al., 2020; Desi et al., 2021). For a mobile service enterprise, the means of financing daily operations can influence the amount of business income ultimately retained by its operator.

Mobile rice milling provides processing services near farmers' homes. Studies from Indonesian districts document its financial feasibility, revenue, and differences in business performance (Dinata et al., 2018; Salam et al., 2021; Dahliana et al., 2023; Ulfa & Masyhuri, 2019). Work on stationary and small rice mills likewise emphasizes revenue, expenses, and profitability (Diponegoro et al., 2023; Momongan et al., 2019; Saputro et al., 2018; Soputan et al., 2023). These contributions are useful benchmarks for business operations, but aggregate enterprise profit does not identify how income is distributed between the operator and an external capital provider.

Recent studies of individual rice-milling enterprises add evidence about financial feasibility and reported business performance (Efrizal et al., 2023; Marpaung et al., 2024; Saputra et al., 2024). Their indicators are useful for assessing enterprise operations, but

Vol.4, No. 4, November 2026, Page 107-117
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https://journal.feb-unm.ac.id/index.php/IJOBER

they do not separate the return promised to a capital provider from repayment of the principal advanced. That distinction is important when the same business-income figure is also used to describe the money available to the operator.

Small enterprises may turn to relationship-based finance where formal loans are constrained by eligibility and collateral requirements. Evidence on farm credit documents the relevance of credit access and its source (Haryanto et al., 2023; Maharani et al., 2024), while an Indonesian village case describes informal lending to microenterprises (Kamah, 2024). Wijaya et al. (2026) investigate how trust is formed in Islamic and conventional bank financing; their findings provide context for relationship-based lending but should not be treated as evidence of informal rice-milling contract terms.

The distinction also relates to a wider financing problem. In credit-market theory, imperfect information can create rationing that is not resolved simply by changing the loan price (Stiglitz & Weiss, 1981). Microfinance scholarship describes alternative contract designs that can extend access but cautions against treating repayment performance as sufficient evidence of borrower welfare (Morduch, 1999). These perspectives provide context; they do not establish why the particular operators in this study borrowed from F1.

Under a local bagi hasil (profit-sharing) understanding, parties may agree on a proportion of a specified income base. The term alone does not establish that the contract is mudharabah, a partnership-like Islamic financing structure in which the allocation of financial losses is a crucial distinguishing feature. A net-income sharing formula also differs from gross-revenue sharing because operating expenses are subtracted before profit entitlements are calculated. Research on MSME profit-sharing schemes discusses the design of such allocations (Afkar et al., 2021), whereas evidence from broiler contract finance shows that repayment obligations must be interpreted within their own contractual setting (Lestari et al., 2024). Neither source verifies the agreement in this study.

Research on rural credit shows why responses to adverse shocks deserve separate attention. Udry (1994) documents state-contingent repayments in a setting outside Indonesia, while Khan (2010) highlights differences between ideals and implemented practices in Islamic banking. Neither finding establishes how the oral agreements in Paya Gambar worked. Both underscore the need to examine actual obligations rather than treat a financing label as evidence about who bears losses or repayment risk.

Literature on rice value-chain governance highlights asymmetries in bargaining and benefit distribution (Ahmad et al., 2024; Fudjaja et al., 2026). However, these broader studies do not identify who bears losses, whether principal must be repaid regardless of earnings, or when payments occur in the five cases examined here. The specific research gap is the lack of enterprise-level evidence separating a reported net-income sharing rule, principal repayment, and the operator's resulting balance in informally financed mobile rice milling.

This study contributes a transparent, enterprise-by-enterprise reconstruction of those three components and a cautious comparison of the reported financing terms with profit-sharing and credit arrangements. It does not infer fairness, financing costs, or legal contract type from the reconstructed figures.

The questions are: (1) what annual revenue, cost, and net business income were reported for five informally financed mobile rice milling enterprises in Paya Gambar Village, Batang Kuis District, Deli Serdang Regency; and (2) how did the reported 30:70

IJoBER
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rule and principal repayment affect the amounts attributable to the financier and operator?

2. METHOD

A descriptive case study examined enterprise performance and informal financing in Paya Gambar Village, Batang Kuis District, Deli Serdang Regency, North Sumatra. Interviews, questionnaires, observations, and available documents were collected during May–June 2023. The design describes reported accounts and their arithmetic implications; it does not estimate a causal financing effect.

The unit of analysis was the mobile rice milling enterprise. Field inquiry identified five active enterprises that both provided mobile milling services and reported financing from a single informal financier; the five identified eligible cases were included (E1–E5), together with the common financier (F1) as a key informant. The source material does not document how a complete village enterprise list was compiled or the total number of mobile mills, including mills without informal finance. Thus, five is a census of identified eligible cases, not a verified census of all village mills. Selection cannot be assumed representative of other enterprises.

Structured interviews and questionnaires covered processing receipts, products and by-products, fixed and variable operating costs, reported financing purpose, the 30:70 rule, principal deductions, and repayment arrangements. Observation provided information about business activity and saleable outputs. The original instrument wording, interview language, questionnaire response options, and length of interviews were not retained in the materials available for this revision; these aspects cannot be reconstructed reliably. The source describes supplementary documentation but does not identify individual document types, dates, or the enterprises to which each document belonged.

Table 1. Descriptive Analytical Framework

Case information	Descriptive analysis	Reported outcomes
Financing: borrowed capital, stated 30:70 rule, principal repayment	Separate return on capital from recovery of principal	Calculated profit entitlements and reconstructed cash allocations
Operations: milling receipts, by-product receipts, fixed and variable costs	Calculate TR, TC and $\pi = TR - TC$ for each enterprise	Reported annual revenue, cost, and net income (E1–E5)
Context: seasonality; one financier	Interpret reported terms and evidence	No causal or loss-sharing claims

Total revenue (TR) was defined as reported income from mobile milling fees and saleable outputs, including rice, bran, husk, broken rice, and sacks where applicable. Total cost (TC) was the reported sum of fixed and variable operating costs; net business income (π) = TR − TC. Fuel, paid and unpaid owner labor, machinery depreciation, repairs, maintenance, transport, and equipment purchase were not individually reconciled. Their inclusion in TC is therefore unknown, not assumed. Equipment purchases and advances of borrowed money should be distinguished from operating expense: borrowed principal is a financing inflow and its repayment a financing outflow, neither an additional operating cost nor business profit. The supplied totals are annual figures reported or

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compiled during May–June 2023, rather than transactions continuously observed over 12 months. No start/end dates of the financial reference year or annualization worksheets are documented.

The reconstruction first assigns 30% of reported net business income to the financier and 70% to the operator. It then adds the reported principal-repayment amount to the financier's calculated profit entitlement and subtracts it from the operator's entitlement. Let P = reported principal repaid: financier allocation = $0.30\pi + P$ and operator balance = $0.70\pi - P$. The allocation as a share of income is $(0.30\pi + P)/\pi$; the profit-entitlement-to-repayment ratio is $0.30\pi/P$. The latter denominator is the reported principal repaid, not necessarily the original amount borrowed. Neither indicator is an annual interest rate.

Accounts from E1–E5 and F1 were compared for the calculation base, division ratio, and treatment of repayment. All six interview summaries consistently identified a 30:70 net-income rule and deduction of principal from the operator's 70% entitlement. These points were checked against the reported enterprise totals for arithmetic consistency. Where transaction-level evidence was missing or claims could not be reconciled, the result was treated as reported or reconstructed, not verified. The available materials do not include a systematic disagreement log, dated receipts, or a full creditor–debtor payment ledger, and do not establish whether installments occurred entirely within the financial reference year.

The study uses anonymous enterprise and financier codes in its reporting. The source material available for revision contains no verifiable statement of how informed consent was obtained, which confidentiality assurances were given, or whether institutional ethical approval or an exemption applied. These matters require confirmation from original research records before publication. Dependence on one financier may have influenced operator accounts, and agreement among interviewees does not eliminate recall, social desirability, or power-related response bias. The evidence permits description of reported terms but not a definitive legal classification of the contract.

Table 2. Analytical Steps and Evidence Basis

Step	Source or inferential status
1. Compile field information	Observation, questionnaires, structured interviews, and available documentation
2. Describe annual enterprise performance	Reported revenue and cost totals; calculate $\pi = TR - TC$ and enterprise means
3. Establish reported sharing rule	Interviews with E1–E5 and F1: 30% financier / 70% operator, net-income base
4. Reconstruct allocations	Apply reported principal deductions to 70% entitlement; no transaction-level audit
5. Interpret financial relationship	Distinguish a profit-linked allocation rule from the unverified treatment of loss and default

3. RESULTS AND DISCUSSION

3.1. Business Revenue, Cost, and Income Structure

The enterprises reported milling-service receipts and revenue from saleable products or by-products. Mean annual TR was IDR 49,958,400, mean recorded TC was IDR 8,020,333, and mean net business income was IDR 41,938,067 per enterprise (Table

IJoBER
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P-ISSN: 2985-4636
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https://journal.feb-unm.ac.id/index.php/IJOBER

3). These are reported/compiled annual amounts, not audited revenues or profit statements for a verified calendar or fiscal year.

Reported net business income was positive in all five cases. Aggregate net income divided by aggregate revenue yields a high apparent net margin of 83.9%. This should not be read as a validated economic profit margin because the field data do not itemize, or establish the inclusion of, owner labor, wages, diesel fuel, repairs, maintenance, transport, depreciation, and acquisition or use of equipment. If relevant expenses were omitted, net income and every downstream entitlement would be overstated. The results cannot be compared numerically with other milling studies without harmonizing their cost definitions (Dinata et al., 2018; Salam et al., 2021; Dahliana et al., 2023; Yunita et al., 2024). Technical efficiency can also change operating cost structure (Krisbiyantoro & Aryanto, 2022).

Table 3. Reported Annual Financial Performance of Mobile Rice Milling Enterprises

Enterprise	Total revenue	Total cost	Net income
E1	39,000,000	6,200,000	32,800,000
E2	45,000,000	7,000,000	38,000,000
E3	49,800,000	8,100,000	41,700,000
E4	55,000,000	9,200,000	45,800,000
E5	60,992,000	9,601,665	51,390,335
Mean	49,958,400	8,020,333	41,938,067

Note. IDR per enterprise for an unspecified annual reference period (reported or compiled from fieldwork in May–June 2023). Mean values are arithmetic averages (n = 5). Source: Primary data analysis.

Multiple reported sources of receipts are consistent with evidence that milling quality and saleable outputs matter commercially (Prom-u-thai & Rerkasem, 2020; Rachmat et al., 2020). However, category-level revenue amounts were not preserved, so the individual contribution of service fees and by-products cannot be calculated. Further breakdown is also needed to identify which operating expenses were financed using borrowed working capital.

The comparison with other milling studies is therefore methodological rather than a ranking of financial performance. Efrizal et al. (2023), Marpaung et al. (2024), and Saputra et al. (2024) investigate financial performance or feasibility within their respective enterprise settings. The five mobile cases cannot be placed on the same profitability scale without comparable cost definitions, machinery-use charges, labor valuation, and accounting periods. Nor should a high reported accounting surplus be equated with disposable income for the operator: financing-related transfers may reduce the amount retained. Keeping operating performance, profit entitlements, and principal movements analytically separate is necessary to interpret Tables 3–5.

3.2. Characteristics of Informal Financing

All five participating enterprises reported borrowing from the same village financier. Interview summaries placed the amounts borrowed in an approximate range of IDR 8,000,000–13,000,000 and described both working-capital and equipment-related uses. The original advance for E1, E2, E3, E4, and E5 separately was not documented in the supplied data. Neither the share advanced for diesel, routine inputs, and other working

Vol.4, No. 4, November 2026, Page 107-117
P-ISSN: 2985-4636
E-ISSN: 2985-4644
https://journal.feb-unm.ac.id/index.php/IJOBER

capital nor the share used for machinery or equipment can therefore be assigned to any enterprise. The amounts in Tables 4 and 5 are reported principal repayments, not a reliable substitute for the original advances.

Respondents described oral agreements and repayment associated with harvest periods. The interviews did not provide a sufficiently specific installment calendar, contract start date, or documentation of whether the full principal was recovered during the reported annual period. A profit-linked return may be economically different from a true risk-sharing arrangement even if both are locally called bagi hasil. Clear contractual evidence on loss-bearing, default, and residual unpaid principal would be needed to assess whether mudharabah, a profit-linked loan, or another informal arrangement offers the closest comparison (Afkar et al., 2021; Kamah, 2024).

The single-financier setting allows the six accounts to be compared but limits independent checking. Interviews did not yield a verifiable account of what would happen during a harvest with little or no distributable income, or of how an operator's default would be handled. These are substantive unknowns, not evidence that losses were shared or that repayment could be deferred without consequences.

From a financing perspective, repeated dealings with one local financier might reduce search or screening costs, but the field evidence does not test that mechanism. Stiglitz and Weiss (1981) consider information problems in credit markets, and Morduch (1999) reviews alternative microfinance mechanisms; neither source demonstrates the motive for financing choices in these five cases. An additional comparison is missing: the record contains no enterprise-specific evidence of formal credit offers, collateral demands, loan prices, or repayment schedules available at the time. Accordingly, the informal arrangement cannot be characterized as cheaper, more accessible, or more efficient than a formal alternative on the basis of these interviews.

3.3. Reported Profit Allocation and Principal Repayment

The interview-reported calculation base was net business income after reported operating costs: 30% as financier profit entitlement and 70% as operator profit entitlement. This is a reported bagi hasil-type allocation rule, not proof that the complete financing contract met the legal or economic requirements of mudharabah. No comprehensive cash ledger was available to trace payment timing or verify that payments always followed the stated ratio.

In a risk-sharing arrangement, the capital provider's exposure to business losses is central; under a profit-linked loan the operator may remain liable for principal even when profit is low. The interviews summarized here did not establish the treatment of losses, default, unpaid balances, or operator misconduct. Research on profit-sharing models in MSMEs and contract-based agricultural credit offers contextual comparisons, not a basis for assigning a definitive category to these five oral arrangements (Afkar et al., 2021; Lestari et al., 2024). A hybrid description remains possible.

Khan (2010) examines differences between stated financing ideals and implemented practices in a banking context. Although an informal village agreement is not the same institutional setting, the relevant analytical caution is to assess how obligations operate rather than classify an arrangement from terminology alone. For the present enterprises, credible classification would require evidence about responsibility for operating losses, whether unpaid principal remained an enforceable obligation, and how any default or early termination was settled. Agreement on the 30:70 formula does not answer those questions.

IJoBER
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https://journal.feb-unm.ac.id/index.php/IJOBER

Table 4 calculates the financier's and operator's profit entitlements at 30% and 70% of reported net income. For transparency, the reported principal repayment is then added to the financier's reconstructed allocation and subtracted from the operator's reconstructed balance. Recovery of the money originally advanced is conceptually different from profit generated by the enterprise. This arithmetic does not verify that the reconstructed allocation was transferred or received within a specified year.

The mean financier profit entitlement was IDR 12,581,420, mean reported principal repayment IDR 11,099,820, and mean reconstructed financier allocation IDR 23,681,240. Against mean reported net business income of IDR 41,938,067, the financier's aggregate reconstructed allocation represented 56.47%; enterprise values ranged from 54.61% to 57.63% (Table 5). Financier profit entitlements were 1.09–1.22 times the reported principal-repayment amounts, not necessarily the original capital advanced. The operator's average 70% entitlement of IDR 29,356,647 was reduced by the reported repayment to IDR 18,256,827, equal to about 43.53% of aggregate net income. These are reconstructed allocations, neither verified receipts nor annualized financing yields.

Table 4. Reconstructed Profit Entitlements and Principal Repayment

Enterprise	Financier profit (30%)	Operator profit (70%)	Principal repaid	Financier allocation	Operator balance
E1	9,840,000	22,960,000	8,800,000	18,640,000	14,160,000
E2	11,400,000	26,600,000	10,500,000	21,900,000	16,100,000
E3	12,510,000	29,190,000	11,250,000	23,760,000	17,940,000
E4	13,740,000	32,060,000	12,300,000	26,040,000	19,760,000
E5	15,417,100	35,973,235	12,649,100	28,066,200	23,324,135
Mean	**12,581,420**	**29,356,647**	**11,099,820**	**23,681,240**	**18,256,827**

Note. Values are IDR per enterprise for a reported annual reference period. Financier allocation = 30% profit entitlement + reported principal repayment; operator balance = 70% profit entitlement.. Source: Primary data analysis.

Table 5. Reported Principal Repayments and Derived Allocation Indicators

Enterprise	Original advance (IDR)	Principal repaid (IDR)	Financier allocation / net income (%)	Profit entitlement / principal repaid (×)
E1	Not recorded	8,800,000	56.83	1.12
E2	Not recorded	10,500,000	57.63	1.09
E3	Not recorded	11,250,000	56.98	1.11
E4	Not recorded	12,300,000	56.86	1.12
E5	Not recorded	12,649,100	54.61	1.22

Note. The original principal advanced to each enterprise was not individually retained in the source data; the available information gives only an approximate IDR 8–13 million range. Source: Primary data analysis.

Table 6. Qualitative Summary of Interview-Reported Financing Terms

Interview theme	Reported account	Boundary of evidence
Contract formation	Oral arrangement; all six summaries describe a 30:70 net-income rule	Written contract not provided
Treatment of principal	All six summaries place principal repayment against the operator's 70%	Dated advances and installment receipts absent
Repayment timing	Repayments described as linked to harvest periods	Exact dates, installments, and reference year unknown

IJoBER
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Vol.4, No. 4, November 2026, Page 107-117
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https://journal.feb-unm.ac.id/index.php/IJOBER

Interview theme	Reported account	Boundary of evidence
Use of borrowed capital	Working-capital and equipment-related purposes mentioned	Enterprise-level use and principal amounts unrecorded
Low-income, loss, default	No reliable account of contingencies in summaries	Cannot infer loss sharing, deferral, or enforcement
Account comparison	Six summaries agree on the sharing rule and principal deduction	One-financier dependence may affect responses

Note. E1–E5 are operators and F1 is their common financier. The table summarizes interview accounts and unresolved conditions, not audited agreements or payments. Source: Interview summaries from fieldwork in May–June 2023.

3.4. Entrepreneurial Implications, Limitations, and Future Research

The key implication is that the headline 30:70 profit-entitlement rule does not describe the cash balance remaining with the operator after the reported repayment of principal. The reconstructed financier allocation combines two different flows: calculated profit entitlement and principal recovery. For operators facing seasonal receipts, a written statement of eligible costs, original principal, permitted equipment financing, payment order, and treatment of weak harvests would improve clarity. This is a transparency recommendation, not a conclusion that the arrangement is exploitative or economically inefficient. Wider studies of governance show why distributional power merits attention, but cannot determine individual contractual outcomes here (Ahmad et al., 2024; Fudjaja et al., 2026).

The 56.47% reconstructed financier allocation should be read as a share of reported net income passing through two distinct channels, not as a rate of return earned on invested capital. Principal repayment is recovery of an earlier advance; only the separate 30% entitlement is calculated as a share of business income. Similarly, the operator's 43.53% reconstructed balance does not value unpaid owner labor, forgone earnings, or exposure to business risk. Variation among the percentages in Table 5 arises from the size of reported principal deductions relative to net income, not from differences in the stated sharing rule. Assessing the actual economic burden would require opening and closing principal balances, dated cash transfers, any new borrowing, and the duration for which capital was outstanding.

The distinction becomes particularly important under weak-harvest conditions. Udry (1994) demonstrates in another rural-credit setting that some repayments respond to realized shocks, providing a relevant question rather than proof of similar flexibility in Paya Gambar. Under the reported calculation rule, a period with little distributable income would produce a correspondingly small 30% profit entitlement. It remains unknown whether a principal installment would still fall due, be postponed, or remain outstanding. Those alternatives have different implications for operator liquidity and the financier's exposure to loss. Even an accurately reported positive-income sharing rule is therefore insufficient to identify the arrangement's risk-sharing properties.

The interpretation is bounded by five identified cases, one common financier, recalled or compiled annual accounts, incomplete cost information, and missing dated financial records. The precise income period, full original advances, allocation between working capital and equipment, payment dates, and procedures for losses and defaults were not established in the source materials. One financier’s influence may also limit how freely operators reported their obligations. Future research should combine consented, separately conducted interviews with dated advance and repayment records, itemized cost logs, and observations over several harvest cycles.

Vol.4, No. 4, November 2026, Page 107-117
P-ISSN: 2985-4636
E-ISSN: 2985-4644
https://journal.feb-unm.ac.id/index.php/IJOBER

Future work could follow each enterprise over consecutive harvest cycles and reconcile opening principal, new advances, itemized operating costs, installment receipts, and closing balances. It should document the use and depreciation of machinery and the opportunity cost of owner and family labor separately from cash expenses. Interviews with the financier and operators should be conducted separately, with verifiable consent and an appropriate ethical review process, before reported accounts are reconciled. Such records would make it possible to distinguish entitlements from transfers received, examine whether installments respond to realized shocks, and compare alternative financing terms. These are proposals for further investigation, not effects established by the present five-case study.

4. CONCLUSIONS AND SUGGESTIONS

Five mobile rice milling enterprises reported positive annual net business income and a consistent 30:70 net-income sharing rule. Yet repayment of borrowed principal changed the reconstructed distribution: 54.61–57.63% of reported net income was allocated to the financier after combining the calculated profit entitlement with reported principal repayment, leaving a smaller operator balance than the initial 70% entitlement. These arithmetic findings do not document actual transfers, an annual interest rate, or definitive contract type. Evidence about loss-bearing and default is insufficient to establish whether the agreements were mudharabah, profit-linked loans, or hybrids.

Operators and financiers should record each capital advance, its purpose (working capital or equipment), permissible business costs, calculation of profit entitlement, installments of principal, dates of settlement, and the treatment of insufficient income, loss, and default. Original financial and ethical records should be checked before publication. Comparative longitudinal studies could then test whether distinct informal arrangements alter cash retained by operators and their exposure to loss.

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Vol.4, No. 4, November 2026, Page 107-117
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