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Fiscal Decentralization and Socio-Economic Development in Baidoa District, Somalia

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Abstract: *This study examines the influence of fiscal decentralization on socio-economic development in Baidoa District, Somalia. Specifically, it analyzes the effects of revenue mobilization, expenditure assignment, and intergovernmental fiscal transfers on local development outcomes. Using a mixed-methods descriptive-correlational design, data were collected from 113 respondents including local government officials and community members. Quantitative data were analyzed using SPSS, while qualitative data were thematically examined. Findings indicate that all three fiscal decentralization components significantly impact development, with expenditure assignment having the strongest influence. The study recommends strengthening local revenue systems, aligning expenditures with community priorities, and ensuring transparent and equitable transfers. The results contribute to understanding how decentralization functions in post-conflict contexts like Somalia, offering actionable insights for policymakers, development partners, and local administrators.*

Keywords: Fiscal decentralization, revenue mobilization, expenditure assignment, intergovernmental transfers, socio-economic development, Baidoa, Somalia

1. Introduction

Fiscal decentralization has become a cornerstone reform for improving public service delivery and governance in post-conflict and fragile states. Over the past two decades, fiscal decentralization has emerged as a key reform strategy in many developing and post-conflict countries, aiming to enhance governance, service delivery, and socio-economic development. It involves the transfer of financial authority and resources from central governments to subnational entities such as local governments (Bahl & Linn, 2020). The rationale is that local governments, being closer to the people, can better understand and respond to community needs, thus promoting efficiency and accountability (Smoke, 2021).

In Somalia, particularly in Baidoa District within the South West State, fiscal decentralization was formally initiated as part of broader governance reforms aimed at rebuilding public institutions following decades of conflict and state collapse (UNDP, 2024). Despite constitutional provisions and legal frameworks such as the Local Government Act of 2017 and the Public Financial Management Regulation of 2022, Baidoa continues to face significant challenges in implementing decentralization effectively. These challenges include limited revenue mobilization capacity, uncoordinated expenditure responsibilities, and inconsistent intergovernmental fiscal transfers (Rift Valley Institute, 2022).

Baidoa's local government struggles with underfunded health, education, and infrastructure sectors, largely due to low domestic revenue generation and delayed federal transfers. Moreover, the influx of internally displaced persons (IDPs) has placed additional strain on public services, further complicating development efforts (UNOCHA, 2023). This reality raises critical questions about the efficacy of Somalia's decentralization framework and its ability to foster inclusive and sustainable development at the local level.

Objectives of the Study

- To examine the effect of revenue mobilization on socio-economic development in Baidoa.
- To assess the impact of expenditure assignment on development outcomes.

- To evaluate the influence of intergovernmental fiscal transfers on development in Baidoa.

2. Literature Review

2.1 Revenue Mobilization

Revenue mobilization is a fundamental pillar of fiscal decentralization and a critical determinant of a local government's ability to deliver essential services and promote development. It involves the generation of financial resources through various channels, including local taxes, fees, licenses, and other levies. Related studies have it that a sound revenue system for local governments regarding revenue mobilization is an indispensable prerequisite for the achievement of fiscal decentralization (Bird, 2020). Having that said, Fjeldstad and Heggstad (2022) contend that although sound revenue system is indispensable for the achievement of fiscal decentralization, the local tax systems often are distortive, costly to administer, and exacerbate inequity. This state of affairs worsens mobilization thus affecting revenues collected. The political interest attached to the local tax payers (voters) by the politicians further affects the coordination of local tax mobilization. Hence hatred caused by politicians to the local authorities implementing the exercise of revenue mobilization yet they are all concerned with the performance of organizations within their jurisdiction (Ehtisham, 2018). According to Bahl and Linn (2020), efficient revenue mobilization empowers local governments by reducing overreliance on central government transfers and enabling more responsive and accountable governance.

In developing countries, particularly in fragile states like Somalia, local governments often struggle to mobilize sufficient revenues due to institutional, administrative, and socio-economic constraints. Smoke (2021) argues that poor tax administration, limited tax bases, and public mistrust in government institutions hinder effective revenue collection. In Baidoa District, these challenges are compounded by a large informal economy, weak enforcement mechanisms, and a lack of skilled personnel in local revenue departments (UNDP, 2024). Moreover, the absence of digital tax collection systems and inadequate legal frameworks contributes to low compliance and leakages in local revenue systems (Fjeldstad, 2019). As a result, local authorities frequently fail to meet their revenue targets, which in turn affect the financing of critical sectors such as education, healthcare, and infrastructure.

Research by Boex and Yilmaz (2020) emphasizes that strengthening local revenue systems requires not only institutional reforms but also community engagement, transparency, and incentives for compliance. Without robust revenue mobilization strategies, the goals of fiscal decentralization such as improved service delivery, economic development, and political accountability remain difficult to achieve. Therefore, enhancing revenue mobilization capacities is essential for local governments like Baidoa District to fulfill their developmental mandates and meet the growing demands of their constituents.

Revenue autonomy entails capacity of local government units to develop and implement their own budget with delimitations of fiscal powers from central government obliging them to provide various public services and goods to the citizens. This has got a positive implication on the side of the local government given the diversity of exploration sub-national units have to expedite. Endowed with own budget, revenue autonomy is assured with its materialization of legal status and regulatory sovereignty in financial management at lower levels of government (Steffenson, 2020). Prevention of central government control over grass root activities in Romania as provided in the Local Public Finance Law No 273/2016 necessitate local authorities with powers to make financial decisions regarding their jurisdiction thus helping to improve local government effectiveness, effectiveness and accountability. Revenue autonomy helped Estonia to enhance the fiscal capacity of its sub-national units to develop, implement and maintain budget balance (Cigu, 2024).

2.2 Expenditure Assignment

Expenditure assignment refers to the process by which responsibilities for providing public goods and services are allocated among different levels of government. It is a central component of fiscal decentralization,

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Vol. 10 Issue 7 July - 2026, Pages: 282-292

determining who does what and with what resources. According to Musgrave (1959), clear expenditure assignment enhances efficiency by ensuring that public services are delivered by the level of government best suited to do so. In decentralized systems, local governments are expected to respond more effectively to local needs due to their proximity to the population (Bahl & Bird, 2018).

However, in many developing and post-conflict countries, including Somalia, expenditure assignments are often ambiguous or mismatched with available resources. As noted by Boex (2020), decentralization reforms frequently transfer responsibilities to local governments without providing corresponding funding or institutional support. In Baidoa District, this misalignment has led to service delivery gaps in key sectors such as healthcare, education, and infrastructure, particularly in the face of increasing demands from internally displaced persons (IDPs) and rapid urbanization (UNICEF, 2023; WHO, 2023). As postulated by Kauzya (2017), the extent of discretion available to the sub-national units enhanced South Africa local governments' ability to respond and meet citizens' needs despite low budget constraints inherent to the systems. Citizens at province levels were enabled to participate in the decision-making processes affecting their wellbeing but nonetheless, it was realized that there was no distinct expenditure assignment approach that would fit all the provinces, (Shah & Shen, 2018). The distribution of power and expenditure responsibility to sub-national levels in the Philippines present the most highly decentralized systems of expenditure. Undefined expenditure assignments in addition to poor division of responsibilities leads to inefficiency within the sub-national units which negatively affects accountability (Ghazia, Yilmaz & Gurkan, 2020).

Moreover, when expenditure assignments are not clearly defined or coordinated, they may result in duplication of functions, inefficiencies, and accountability failures (Shah, 2007). Local authorities may find themselves unable to meet citizen expectations due to inadequate fiscal space or legal ambiguity regarding their mandates. This situation is exacerbated in fragile contexts like Baidoa, where institutional capacity is weak and administrative systems are still developing. To address these challenges, it is essential to align expenditure responsibilities with revenue authority and institutional capacity. According to the World Bank (2021), adopting a rule-based framework for expenditure assignment, supported by clear intergovernmental guidelines, can improve transparency and promote equitable service provision. Without such alignment, the benefits of fiscal decentralization cannot be fully realized.

It was established by Cabrero and Martinez (2020) that expenditure share of both municipal and state governments increased steadily overtime. At state level, sub-national units' presence in total expenditure was increased up to 22% in 1996 from 14% in 1989. This kind of trend improved service delivery in the health sectors upon guidelines of following the generally accepted principles and rules of expenditure assignment prescribed in the policy. The provision of public services by government with notation of reaching the entire nation considers intermediate benefit across sectors of government including though not limited to hospitals and roads and thus by participation in budgeting processes and planning activities at local government levels, organization performance is positively influenced with improved service effectiveness such as street lighting, health services, etc. (David & Hofman, 2018).

Renyaan etal (2022) found out that resource allocation in the public sector has a great influence on the realization of its goals and objectives in a strategic perspective. Retrospectively, appropriate resource allocation creates a platform onto which all organizational activities within local government and central government base to execute their mandates. The existence and functional and adequate resource such as information, communication and technology modules enhances socio-economic development and contribute noticeable results in the process (Serdar, Beris, & Serrano-Berthet, 2018).

2.3 Intergovernmental Fiscal Transfers

Inconsistent and unpredictable transfers hinder planning and development execution. Transfers that lack transparency or formula-based distribution lead to regional disparities. As observed in Baidoa, only partial disbursement of budgeted funds undermines project sustainability. Intergovernmental fiscal transfers (IGFTs) are financial allocations from central to subnational governments aimed at addressing vertical and horizontal fiscal imbalances. These transfers are essential in decentralized systems, especially where local governments lack sufficient revenue-generating capacity to meet their expenditure responsibilities (Boadway & Shah, 2009). In fragile states like Somalia, where local fiscal autonomy is limited, IGFTs play a vital role in ensuring that local governments such as Baidoa District can fund essential services and support socio-economic development.

Vertical fiscal imbalance arises when subnational governments are assigned expenditure responsibilities without corresponding revenue authority, requiring top-down transfers to close the gap (Bird & Smart, 2002). Horizontal fiscal imbalance, on the other hand, refers to disparities in fiscal capacity across regions, often driven by differences in economic base or demographic pressures. In Somalia, this is especially evident in regions like Baidoa, which hosts large numbers of internally displaced persons (IDPs) and faces significant developmental deficits (UNOCHA, 2023).

The World Bank (2023) highlights that irregular disbursements, delayed transfers, and politically influenced allocations have constrained local governments' ability to plan and execute development projects. In Baidoa, only a fraction of the approved budgets has been transferred annually, undermining health, education, and infrastructure initiatives (UNDP, 2024). Effective fiscal transfer systems should be rules-based, formula-driven, and equitable. According to Ahmad and Brosio (2009), transfer mechanisms must promote accountability, efficiency, and responsiveness. Performance-based grants, equalization transfers, and conditional grants linked to sectoral priorities can improve service delivery outcomes while maintaining fiscal discipline. Thus strengthening Somalia's intergovernmental transfer system is critical for improving local government performance. For Baidoa, predictable and adequate transfers are indispensable for achieving meaningful socio-economic progress under a decentralized governance framework.

The transfers impact all sectors of government health inclusive although there are rampant claims of inequitable distribution across the various local governments which negatively impede the performances of those sectors. As such, sub-national units in Somalia including districts and municipal councils take full responsibility for delivering health services and other public services as the conditions may demand but the irregularities imbedded in the processes affects the efficient and effective delivery of services. Transfers have increased local government autonomy, enhanced ownership and improved accountability at lower levels of government (Kauzya, 2017).

Tagobya (2015) asserted that, at local government level, basic health services take a networked dimension from hospital level to health center II level. The Somalia intergovernmental fiscal transfer program was conceived in the mid-90s with prospects of being rolled out in the decentralized system of political governance and within the fiscal lines. Funds transferred at local government level determine the nature and quality of services to be provided to the citizens especially in health and education sectors since these two are wholly under sub-national units of government i.e. districts and municipalities (Awortwi, 2020).

International Journal of Academic and Applied Research (IJAAR)
ISSN: 2643-9603
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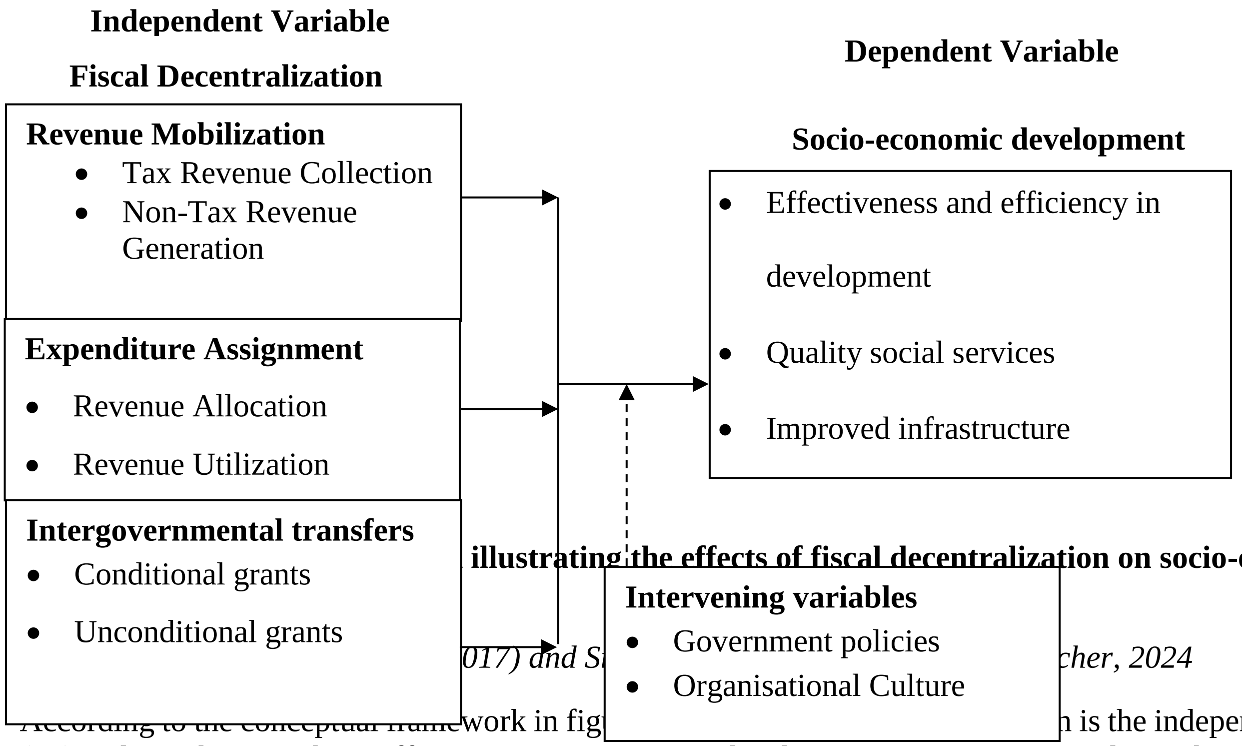
2.1. Conceptual Framework



illustrating the effects of fiscal decentralization on socio-economic

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According to the conceptual framework in fig ... n is the independent variable (IV) and it is the one whose effects on socio-economic development were investigated. For the purpose of this study, the dimensions of fiscal decentralization based on Feruglio (2017) and Smoke (2020) include revenue mobilization, expenditure assignment and intergovernmental transfers with their measures as indicated in the conceptual framework below. On the other hand, socio-economic development which is the dependent variable (DV) for this study was measured by availability and quality development, quality social services, and improved infrastructure. To depict the effects between the two variables, the researcher adopted a many-to-one approach to describe the extent to which fiscal decentralization affects socio-economic development in Baidoa District

3. Methodology

This study employed a **descriptive-correlational research design** using a **mixed-methods approach** to investigate the effects of fiscal decentralization on socio-economic development in Baidoa District, Somalia. The design allowed for both quantitative and qualitative data collection and analysis to comprehensively understand the research problem.

The **target population** comprised 160 individuals, including local government officials, community leaders, and development partners. A **sample size of 113 respondents** was determined using **Krejcie and Morgan's table**. **Simple random sampling** was used for general respondents, while **purposive sampling** targeted key informants with specialized knowledge of fiscal processes in Baidoa. Data collection utilized **two primary instruments**: self-administered questionnaires for quantitative data and interview guides for qualitative insights.

The questionnaire addressed the three independent variables revenue mobilization, expenditure assignment, and intergovernmental fiscal transfers as well as the dependent variable, socio-economic development. The interview guide was designed to obtain deeper contextual understanding from key informants. To ensure the

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validity of the instruments, expert review was conducted and a **Content Validity Index (CVI)** of 0.85 was achieved. **Reliability** was assessed using **Cronbach's Alpha**, with all constructs scoring above the acceptable threshold of 0.70, indicating high internal consistency. **Quantitative data** were analyzed using **SPSS**, applying descriptive statistics, correlation, and multiple regression to test relationships between variables. **Qualitative data** were analyzed thematically to capture patterns and contextual insights that complemented the statistical findings.

4. Results

4.1 Revenue Mobilization`

Revenue mobilization had a moderate but significant relationship with socio-economic development ($r = 0.623$, $p < .001$). Inadequate local taxation and poor enforcement mechanisms were identified as key barriers.

4.2 Expenditure Assignment

This showed the strongest influence ($r = 0.741$, $p < .001$). Misalignment between expenditure authority and financial capacity was evident, especially in education and health sectors.

4.3 Intergovernmental Transfers

Significant effect observed ($r = 0.672$, $p < .001$). Delays and inconsistencies in transfers negatively affected infrastructure projects and service continuity.

5. Discussion

Discussion on the effects of Revenue Mobilization on Socio-Economic Development in Baidoa District, Somalia

The study revealed widespread concerns regarding the adequacy and effectiveness of revenue mobilization in Baidoa District. A significant proportion of respondents disagreed that the local government had sufficient revenue sources, as indicated by a low mean score of 2.76. This supports Fjeldstad and Heggstad's (2022) argument that weak and costly tax systems often hinder effective local revenue generation, thus undermining fiscal decentralization. Despite some agreement that revenue sources have contributed to improved government performance (27.27% strongly agreed), the mean score of 3.09 reflects a neutral stance, suggesting mixed perceptions about their actual impact. Similarly, respondents were divided on whether revenue mobilization has met public expectations, with a mean of 3.08. This aligns with Crandall (2020), who highlights that public dissatisfaction often stems from a disconnect between revenue collection and service delivery. Further findings showed skepticism about the enumeration and assessment of revenue sources. A mean of 3.05 and a standard deviation of 1.39 suggested uncertainty about the tax administration's effectiveness consistent with Bird (2020) and Ehtisham (2018), who cite administrative inefficiencies as a major barrier to successful revenue mobilization.

Additionally, a low mean of 2.91 indicated that respondents did not believe local revenues significantly contributed to health infrastructure improvements, echoing Malm and Kant's (2023) concerns about underfunded public services in developing countries.

Although some respondents agreed that revenue collection increased autonomy and flexibility, mean scores below 3.00 suggest continued reliance on external funding. These findings support Steffensen (2020) and Jean et al. (2020), who argue that limited revenue autonomy restricts local responsiveness and decision-making power.

Discussion on the effects of Expenditure Assignment on Socio-Economic Development in Baidoa District, Somalia

The study explored how expenditure assignment affects socio-economic development in Baidoa District. Results revealed mixed perceptions among respondents. While some agreed that adequate revenue was

International Journal of Academic and Applied Research (IJAAR)
ISSN: 2643-9603
Vol. 10 Issue 7 July - 2026, Pages: 282-292

allocated to improve local government performance (mean = 3.12), the general stance was neutral, indicating uncertainty about the sufficiency and effectiveness of resource distribution. This aligns with Jean et al. (2020), who argue that successful fiscal decentralization depends on adequate and appropriately allocated resources.

Although many respondents agreed that revenue allocation follows a prescribed formula, the variation in responses (mean = 3.06) suggests concerns about fairness and transparency—issues also highlighted by Shah and Shen (2018). Client satisfaction linked to revenue allocation received similarly neutral responses (mean = 3.05), indicating that improved allocation alone may not fully explain public satisfaction, as Renyaan et al. (2022) suggest. Significant dissatisfaction emerged regarding the timeliness of revenue disbursement (mean = 2.96), echoing Otieno et al. (2024), who warn that delays can hinder service delivery. Despite some acknowledgment of improved health infrastructure (mean = 3.10) and proper revenue utilization (mean = 3.06), skepticism remained about the efficiency and transparency of fund management.

The study found limited accountability mechanisms in place, as a substantial number of respondents believed that officials who misuse resources are not held accountable (mean = 2.94). This concern reflects broader challenges in fiscal governance identified by Kauzya (2017) and Ghazia et al. (2020). Uncertainty was also evident regarding the use of revenue for healthcare supplies (mean = 2.99) and timely service delivery (mean = 2.96). These findings reinforce the importance of improving financial oversight and transparency to enhance service delivery and strengthen public trust in local governance structures.

Discussion on the effects of Intergovernmental Fiscal Transfers on Socio-Economic Development in Baidoa District, Somalia

The study examined how intergovernmental fiscal transfers impact socio-economic development in Baidoa District, revealing general uncertainty and dissatisfaction among respondents. Conditional grants, which are essential for addressing fiscal disparities, received a neutral mean score of 3.15, indicating mixed perceptions about their adequacy. This aligns with Bamanyisa (2020), who emphasized that while such transfers are necessary, inefficiencies in their allocation can limit their developmental impact. Timeliness of grant disbursement was also viewed with skepticism (mean = 3.13), supporting Kauzya's (2017) assertion that irregular transfers undermine effective service delivery. Similarly, grants targeted at health activities received neutral feedback, suggesting misalignment between fiscal transfers and sector-specific needs—again reinforcing Bamanyisa's (2020) observations on irregular distribution affecting service delivery.

Although some respondents acknowledged infrastructure improvements from conditional grants, the response remained mixed, echoing Tagobya's (2015) findings that the potential of transfers is often unrealized without proper monitoring. Further dissatisfaction was evident in perceptions regarding whether grants targeted priority sectors (mean = 2.97), underscoring concerns by Kessler and Lessmann (2019) that misdirected allocations reduce transfer effectiveness. Regarding unconditional grants, respondents expressed uncertainty about their sufficiency (mean = 3.00) and their role in improving health infrastructure (mean = 2.99), echoing Jean et al. (2020) and Ahmad et al. (2016), who questioned the sectoral impact of such transfers. A majority also believed these grants failed to bridge fiscal gaps (mean = 2.91), consistent with Guziejewska (2016), who noted that unconditional grants often fall short of addressing vertical imbalances.

Finally, the reported shortages of medical supplies (mean = 2.94) confirm persistent issues in health service funding, highlighting the need for more targeted, timely, and sufficient fiscal transfers to improve socio-economic outcomes in Baidoa.

6. Conclusion

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Conclusion on the effects of Revenue Mobilization on Socio-Economic Development in Baidoa District, Somalia

The study concluded that revenue mobilization has a significant and positive impact on socio-economic development in Baidoa District, accounting for 38.8% of the variance in development outcomes. With an unstandardized coefficient of 0.629, the results confirm that increased revenue mobilization can substantially enhance local development when supported by effective systems. However, the district continues to face limitations such as a narrow tax base, weak enforcement, and inefficient collection methods, which constrain its capacity to fund essential services.

Conclusion on the effects of Expenditure Assignment on Socio-Economic Development in Baidoa District, Somalia

The study concluded that, optimizing expenditure assignment by aligning resources with priority sectors will enhance the efficiency of public service delivery and accelerate socio-economic development. A participatory, needs-based, and performance-driven allocation system is key to improving living standards in Baidoa District. with an R Square value of 0.609 and a coefficient of 0.741, the analysis demonstrated that the manner in which expenditure responsibilities are assigned significantly shapes the socio-economic trajectory of Baidoa District. The strong statistical relationship shows that strategic and well-aligned expenditure decisions are crucial for maximizing development impact.

Conclusion on the effects of Intergovernmental Fiscal Transfers on Socio-Economic Development in Baidoa District, Somalia

The study concluded that intergovernmental fiscal transfers were also found to significantly contribute to socio-economic development, explaining 36.9% of the variance, with a coefficient of 0.672. Despite this positive relationship, the effectiveness of these transfers is undermined by inconsistencies, delays, and a lack of transparency in allocation. The study findings point to poor predictability and weak targeting of transfers, which hinder the local government's ability to plan and implement development programs effectively. In a context like Baidoa where basic service needs are urgent inequitable or delayed transfers can have damaging effects on healthcare access, infrastructure development, and poverty reduction.

Recommendations

Recommendations on the effects of Revenue Mobilization on Socio-Economic Development in Baidoa District, Somalia

The study recommended that local government officials in Baidoa District should strengthen revenue collection systems by adopting digital platforms and automated tax management tools to track collections, reduce leakages, and improve transparency. It is now clear that the district's weak enforcement mechanisms have led to inadequate revenue generation.

Furthermore, the study recommended that Baidoa District's local government should broaden the tax base by formalizing informal businesses and creating policies that encourage their registration and tax compliance. It has been established that the district's over-reliance on a narrow tax base limits its revenue potential.

The study recommended that local authorities should enhance tax compliance through taxpayer education and community engagement initiatives. It is no longer doubtful that poor public perception of taxation contributes to non-compliance. Therefore, the local government, in partnership with civil society organizations and community leaders, should launch awareness campaigns within the next three months to educate residents on the importance of taxes and their direct link to improved public services.

Recommendations on the effects of Expenditure Assignment on Socio-Economic Development in Baidoa District, Somalia

The study recommended that Baidoa District's local government should institutionalize participatory budgeting processes to ensure that public spending aligns with the needs of the community. It has been established that the misalignment between budgetary allocations and community priorities undermines the effectiveness of public spending.

The study further recommended that clear expenditure guidelines should be developed and adopted to direct public funds toward critical sectors such as healthcare, education, and infrastructure. It is now clear that the absence of structured expenditure policies has resulted in inefficient spending.

Local government officials, with the support of national authorities, should draft and implement these guidelines within the next six months to enhance the allocation of resources toward areas with the greatest socio-economic impact.

Recommendations on the effects of Intergovernmental Fiscal Transfers on Socio-Economic Development in Baidoa District, Somalia

The study recommended that national and regional government authorities should improve the transparency and predictability of fiscal transfers to Baidoa District. It is now clear that the current system is characterized by delays and uncertainty, which disrupts local planning and service delivery. Therefore, a standardized framework for disclosing the amount, purpose, and timing of transfers should be developed and implemented within the next three months.

The study further recommended that the formulas used to determine fiscal transfers should be reviewed to ensure that they are equitable and responsive to the socio-economic needs of Baidoa District. It has been established that the current allocation system does not sufficiently account for the district's high poverty levels and limited infrastructure. A revised formula that reflects the district's development challenges should be adopted within the next six months to ensure fairer distribution of resources.

Furthermore, the study recommended that regular dialogue and coordination between Baidoa District's local government and national authorities should be facilitated to address challenges related to fiscal transfers. It has been established that poor communication and lack of collaboration hinder the effectiveness of transfer systems. Quarterly coordination meetings should commence within the next three months, creating a platform to discuss funding gaps, delays, and potential solutions to improve the transfer process and enhance service delivery in Baidoa.

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