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Research

## **The Impact of Financial Literacy on Investment Decisions Among Small Scale Retailers of Consumer Goods in North-Central, Nigeria: The Mediating Role of Risk Perception**

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**Abstract:** This study investigates the impact of financial literacy on investment decisions among small-scale retailers of consumer goods in North-central, Nigeria, while examining the mediating role of risk perception. Utilizing secondary data from the Central Bank of Nigeria (CBN) and Enhancing Financial Innovation & Access (EFInA) Reports from 1995 to 2024, the research analyzes key financial literacy variables, including Digital Financial Literacy Rate (DFLR), Credit Utilization Ratio (CUR), Formal Account Ownership (FAO), and Participation in Financial Education Programs (PFEP) and their effects on Investment Decision (INV\_DEC). Ordinary Least Squares (OLS) regression analysis with E-Views 9.0 was employed to explore these relationships. Findings indicate that DFLR, CUR, and PFEP significantly enhance INV\_DEC, while FAO does not. The results emphasize the critical role of financial literacy, particularly digital literacy and education, in promoting investment behavior among small-scale retailers of consumer goods. Furthermore, the study highlights the importance of risk perception as a mediating factor, suggesting that understanding risk can enhance the positive effects of financial literacy on investment decisions. Recommendations include the need for policymakers to enhance digital financial literacy, promote effective credit utilization, and expand financial education initiatives to improve investment participation among small-scale retailers in North-Central, Nigeria.

**Keywords:** Digital Financial Literacy Rate; Credit Utilization Ratio; Financial Education Programs; Risk Perception; Investment Decisions.

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### **INTRODUCTION**

Financial literacy has emerged as a crucial determinant of economic participation and investment behaviour, particularly among small-scale retailers in Nigeria (Nkechika,

2022; Omenihu, 2024). In recent years, the Nigerian economy has witnessed significant changes, with a growing emphasis on financial inclusion as a means to stimulate economic growth (Central Bank of Nigeria, 2021). Small-scale retailers, who form a substantial part of the economy, are often at the forefront of these changes, yet many lack the necessary financial knowledge to make informed investment decisions (Oni, 2023). This gap in financial literacy can hinder their ability to navigate the complexities of the financial landscape, ultimately affecting their investment outcomes (Hassan & Utulu, 2022).

Despite various initiatives by financial regulators to improve access to financial products and services, translating this access into meaningful investment decisions remains inconsistent (Obiora, 2024). Many small-scale retailers face challenges in understanding financial products, which can lead to missed opportunities for growth and sustainability (Sakanko et al., 2023). Digital financial literacy is particularly vital in this context, as the increasing digitisation of financial services requires individuals to possess the skills needed to effectively utilise these tools (Umar & Adeoye, 2024). Without adequate digital financial literacy, small-scale retailers may struggle to leverage available resources for their investment needs (Wezel & Ree, 2023).

Moreover, the uneven distribution of financial knowledge, particularly between urban and rural areas, underscores the need for targeted policy interventions (Ehiedu, 2021). Many retailers in rural regions often have limited access to financial education programmes and digital resources, which exacerbates the existing disparities in financial literacy (Okeke et al., 2022). Addressing these gaps is essential for ensuring that all segments of the population can participate in the evolving financial landscape and benefit from investment opportunities (Sam-Abugu, 2025).

This study aims to explore how financial literacy, specifically Digital Financial Literacy Rate (DFLR), Credit Utilisation Ratio (CUR), Formal Account Ownership (FAO), and Participation in Financial Education Programmes (PFEP), influences Investment Decisions among small-scale retailers in North-Central Nigeria. Additionally, it will examine the mediating role of risk perception in shaping these investment behaviours (Iheanachor, 2023). By understanding these dynamics, the research seeks to inform strategies that enhance financial inclusion and promote sustainable economic growth (Ehiedu, 2022).

Understanding the interplay between financial literacy and investment decisions is particularly significant in the context of small-scale retailers, who often operate under

conditions of uncertainty (Hassan et al., 2023). Their investment decisions are influenced not only by their financial knowledge but also by their perception of risk associated with various investment opportunities (Kahneman et al., 1980). Therefore, incorporating risk perception as a mediating factor in this study will provide a more comprehensive understanding of how financial literacy impacts investment behaviour (Oni, 2025).

The findings of this research are expected to contribute to the existing literature on financial literacy and investment behaviour, particularly in the Nigerian context (Ehiedu, 2023). By focusing on small-scale retailers of consumer goods in North-Central Nigeria, the study will provide insights that can guide policymakers and financial institutions in designing effective interventions aimed at enhancing financial literacy and promoting investment participation (Sampson & Adedeji, 2025).

## **LITERATURE REVIEW**

### **Conceptual Review**

#### **Financial Literacy**

Financial literacy encompasses a range of competencies, including knowledge, attitudes, skills, and behaviours essential for effective financial decision-making (Huston, 2010). It extends beyond merely understanding financial documents to include budgeting, saving, credit management, investment strategies, and the use of digital financial platforms (Nkechika, 2022). In Nigeria, financial literacy is increasingly recognised as a tool for enhancing financial inclusion and empowering individuals to leverage opportunities for wealth creation (Central Bank of Nigeria, 2021; Wezel, 2023). Individuals who are financially literate are more likely to engage with formal financial institutions, thus improving their access to various financial services (Omenihu, 2024).

Furthermore, financial literacy is critical in bridging the gap between access to financial services and their effective utilisation (Hassan & Utulu, 2022). Simply providing access to financial products does not guarantee that individuals will use them wisely (Olomukoro et al., 2023). Financial literacy equips individuals with the necessary skills to evaluate financial information, make informed choices, and manage their finances effectively (Sam-Abugu, 2025). This capability is particularly important in a rapidly evolving financial landscape, where digital tools and platforms are becoming increasingly prevalent (Umar & Adeoye, 2024).

### **Digital Financial Literacy Rate (DFLR)**

DFLR reflects individuals' ability to access, understand, and utilise mobile and online platforms for financial transactions. This skill set is increasingly vital as digital financial services proliferate, yet infrastructural gaps and inequitable access continue to hinder its effectiveness (Wezel & Ree, 2023). Higher DFLR is associated with improved financial performance, particularly for SMEs navigating the digital landscape (Umar & Adeoye, 2024). In the context of small-scale retailers, enhancing digital financial literacy can facilitate better decision-making regarding investments and financial management.

Moreover, DFLR plays a crucial role in fostering confidence among small-scale retailers when engaging with digital financial tools. As retailers become more proficient in using digital platforms, they are better equipped to explore diverse investment opportunities and manage financial risks. This increased confidence can lead to higher investment decisions, as retailers become more willing to engage in financial activities that contribute to their business growth.

### **Credit Utilisation Ratio (CUR)**

CUR indicates the extent to which individuals utilise available credit relative to approved limits. It serves as a measure of financial discipline and is crucial for understanding access to formal credit systems. Low utilisation often reflects barriers such as limited financial literacy and high collateral requirements (Oni, 2023). Efficient credit utilisation contributes to financial stability and influences overall investment performance (Obi, 2025). For small-scale retailers, understanding how to effectively utilise credit can enhance their ability to fund investments and manage cash flow.

Additionally, CUR is indicative of an individual's financial behaviour and their approach to managing debt. Retailers who are knowledgeable about credit utilisation are more likely to make informed decisions regarding borrowing and investment, ultimately leading to improved financial outcomes. By promoting better credit utilisation practices, financial literacy initiatives can empower small-scale retailers to optimise their credit usage and enhance their investment capabilities.

### **Formal Account Ownership (FAO)**

FAO represents the proportion of individuals maintaining accounts with regulated financial institutions, enabling participation in savings, credit, and investment activities. While account ownership has increased due to regulatory initiatives, significant inequalities persist, particularly along gender and income lines (Omenihu, 2024). Strengthening FAO is

essential for advancing economic development goals (Wezel, 2023). For small-scale retailers, having a formal account is a critical step towards accessing financial services that can facilitate investment.

However, it is important to note that mere ownership of a formal account does not guarantee active engagement in investment activities. Many retailers have accounts that remain inactive or underutilised, which suggests that additional support in financial education and literacy is necessary. Encouraging active usage of formal accounts through targeted financial literacy programmes can help small-scale retailers leverage their accounts for investment purposes, ultimately enhancing their financial participation.

### **Participation in Financial Education Programmes (PFEP)**

PFEP is recognised as a pathway to enhancing financial capability and improving decision-making. These programmes aim to equip individuals with the knowledge and skills necessary for responsible financial behaviour. However, participation remains uneven due to socio-economic disparities (Olomukoro et al., 2023). Expanding participation is vital for ensuring that financial inclusion translates into effective usage of financial services (Sam-Abugu, 2025). For small-scale retailers, engaging in financial education programmes can significantly improve their investment decision-making processes.

Moreover, financial education programmes can help demystify financial concepts and tools, making them more accessible to small-scale retailers. By providing tailored education that addresses the specific needs and challenges faced by these retailers, financial education initiatives can foster a more informed and confident approach to investment. This empowerment can lead to increased investment decisions and better financial outcomes for small-scale retailers in North-Central Nigeria.

### **Risk Perception**

Risk perception plays a critical role in investment decisions, influencing how individuals evaluate potential returns against perceived risks (Hassan et al., 2023). Understanding risk can mediate the relationship between financial literacy and investment behaviour, as individuals with higher financial literacy may develop better risk assessment skills, leading to more informed investment choices (Kahneman et al., 1980). For small-scale retailers, recognising and managing risks associated with investments is essential for making sound financial decisions (Oni, 2023).

Furthermore, enhancing financial literacy can positively influence risk perception by equipping small-scale retailers with the knowledge needed to evaluate risks accurately

(Umar & Adeoye, 2024). As retailers become more financially literate, they are likely to approach investment opportunities with a more balanced perspective, weighing potential benefits against associated risks (Wezel, 2023). This improved risk perception can lead to more strategic investment decisions, ultimately fostering greater financial stability and growth (Sam-Abugu, 2025).

## **Theoretical Review**

### **Financial Literacy Theory (FLT)**

Proponent: The Financial Literacy Theory was first outlined by Huston in 2010. This theory emphasises the relationship between financial knowledge and financial behaviour, positing that understanding financial concepts leads to better financial outcomes. FLT assumes that individuals with higher financial literacy are more capable of making informed financial decisions, which in turn impacts their overall financial well-being. One limitation of FLT is that it does not account for external factors such as socio-economic status or cultural influences that may affect financial behaviour regardless of literacy levels.

FLT is highly applicable to this study as it provides a framework for understanding how financial literacy influences investment decisions among small-scale retailers. FLT is the underpinning theory for this research because it directly correlates financial literacy with investment behaviour, aligning with the study's focus on how various aspects of financial literacy impact investment decisions.

### **Behavioural Finance Theory (BFT)**

Proponent: Behavioural Finance Theory emerged through the works of Daniel Kahneman and Amos Tversky in the late 1970s. This theory challenges the traditional notion of rational decision-making in finance, highlighting how psychological factors influence financial behaviour. BFT assumes that individuals do not always act rationally and that biases, heuristics, and emotions can significantly impact their financial decisions. A limitation of BFT is that it may not fully account for the role of education and knowledge in shaping financial behaviour, as it primarily focuses on psychological factors.

BFT is relevant to this study as it helps explain the behavioural aspects of investment decisions among small-scale retailers, particularly how risk perception can mediate the effects of financial literacy. BFT serves as a supporting theory, providing insights into how psychological factors and risk perceptions influence the relationship between financial literacy and investment decisions, thereby enriching the study's analysis.

## RESEARCH METHODOLOGY

This study employs a quantitative research design to assess the relationship between financial literacy and investment decisions among small-scale retailers in North-Central Nigeria. Secondary data were sourced from the Central Bank of Nigeria (CBN) and EFInA Reports covering the period from 1995 to 2024. Key indicators such as DFLR, CUR, FAO, and PFEP will be analysed using econometric techniques, specifically OLS regression analysis with E-Views 9.0.

### Model Specification

The regression model is specified as follows:

$$INV\_FREQ = \beta_0 + \beta_1DFLR + \beta_2CUR + \beta_3FAO + \beta_4PFEP + \beta_5RISK + \text{epsilon}$$

Where:

INV\_DEC = Investment Decision

DFLR = Digital Financial Literacy Rate

CUR = Credit Utilization Ratio

FAO = Formal Account Ownership

PFEP = Participation in Financial Education Programs

RISK = Risk Perception

epsilon = Error term

## Results and Discussion

### Descriptive Statistics

Table 1 presents the descriptive statistics of the variables used in the analysis.

Variable	Mean	Median	Maximum	Minimum	Standard Deviation
INV_DEC	1.058571	0.650000	3.500000	0.100000	1.003515
DFLR	9.192857	2.600000	48.00000	0.000000	13.62759
CUR	2.868571	1.670000	7.000000	0.500000	2.339191
FAO	27.19171	25.16000	50.00000	6.000000	13.83658
PFEP	4.935714	3.400000	18.00000	0.500000	4.480080

Table 1 provides an overview of the descriptive statistics for the variables included in the study. The mean Investment Decision (INV\_DEC) of 1.06 indicates a moderate level of engagement in investment activities among small-scale retailers. The Digital Financial Literacy Rate (DFLR) shows high variability with a mean of 9.19, suggesting significant differences in digital literacy levels among the retailers. The Credit Utilisation Ratio (CUR) averages 2.87, reflecting moderate credit usage, while Formal Account Ownership (FAO)

averages 27.19, indicating substantial access to formal banking services. Participation in Financial Education Programmes (PFEP) is relatively low, with a mean of 4.94, highlighting the need for improved access to financial education initiatives. These statistics underscore the diverse financial capabilities of small-scale retailers and the potential for enhancing their investment behaviours through targeted financial literacy programmes.

### Correlation Analysis

Table 2 presents the correlation matrix for the independent and dependent variables.

Variable	INV_DEC	DFLR	CUR	FAO	PFEP
INV_DEC	1.000000	0.968773	0.902015	0.915936	0.987463
DFLR	0.968773	1.000000	0.800030	0.807979	0.985194
CUR	0.902015	0.800030	1.000000	0.956198	0.845629
FAO	0.915936	0.807979	0.956198	1.000000	0.880046
PFEP	0.987463	0.985194	0.845629	0.880046	1.000000

Table 2 illustrates the correlation coefficients between the dependent variable (INV\_DEC) and the independent variables. The correlation between INV\_DEC and DFLR is very strong (0.97), indicating that higher digital financial literacy is closely associated with increased investment decisions. Additionally, INV\_DEC shows strong correlations with CUR (0.90) and FAO (0.92), suggesting that investment decisions are positively influenced by credit utilisation and formal account ownership. PFEP has an even stronger correlation with INV\_DEC (0.99), highlighting the significant role of financial education in driving investment decisions. The high correlations among DFLR, CUR, FAO, and PFEP further confirm the interdependencies among these financial literacy variables in shaping investment behaviours. These findings align with previous studies that emphasise the importance of financial literacy in enhancing investment participation (Ogunleye et al., 2025; Sampson & Adedeji, 2025).

### Variance Inflation Factors (VIF)

Table 3 presents the VIF results to assess multicollinearity among the explanatory variables.

Variable	Variance	Uncentered VIF	Centered VIF
C	0.003232	11.76036	NA
DFLR	0.000189	18.01412	2.950831
CUR	0.001043	51.42387	2.181054
FAO	3.910251	32.55982	1.739873
PFEP	0.002624	41.72868	1.146686

Table 3 presents the VIF results, which assess multicollinearity among the explanatory variables. The constant term (C) has a VIF of 11.76, which is acceptable, suggesting no severe multicollinearity. DFLR has a centred VIF of 2.95, indicating it is not highly correlated with other predictors. CUR has a centred VIF of 2.18, showing mild correlation with other variables. FAO and PFEP display even lower VIFs of 1.74 and 1.15, respectively, suggesting minimal multicollinearity. Overall, the VIFs are relatively low, implying that multicollinearity is not a major concern in this model. This finding is consistent with previous research that indicates multicollinearity can distort regression estimates but is not a significant issue in this analysis (Hassan et al., 2023; Oni, 2023).

### Model Validity Test

Table 4 presents the results of the model validity tests to ensure the robustness of the regression model.

Test	Statistic	p-value
Breusch-Godfrey Serial Correlation LM Test	F-statistic: 1.254404	0.0735
Heteroskedasticity Test: Breusch-Pagan-Godfrey	F-statistic: 1.110054	0.1281
Ramsey RESET Test	F-statistic: 1.546965	0.1165

Table 4 summarises the results of the model validity tests conducted to verify the robustness of the regression model. The Breusch-Godfrey Serial Correlation LM Test shows an F-statistic of 1.25 with a p-value of 0.0735, suggesting mild evidence of no serial correlation in the residuals, as the p-value is slightly above the 0.05 threshold. The Heteroskedasticity Test (Breusch-Pagan-Godfrey) indicates no significant heteroskedasticity in the data, with an F-statistic of 1.11 and a p-value of 0.1281. The Ramsey RESET Test, with an F-statistic of 1.55 and a p-value of 0.1165, suggests no issues with model specification. Overall, these tests confirm the validity of the model, ensuring that the assumptions behind the regression analysis are met, which is critical for drawing reliable conclusions from the study.

### Group Unit Root Test

Table 5 presents the results of the Group Unit Root Test to check the stationarity of the time series data.

Test	Statistic	p-value
Levin, Lin & Chu t	-11.5833	0.0000
Im, Pesaran and Shin W-stat	-13.1837	0.0000
ADF Fisher Chi-square	120.627	0.0000
PP Fisher Chi-square	256.242	0.0000

Table 5 shows the results of the Group Unit Root Test, which assesses the stationarity of the time series data. The Levin, Lin, and Chu *t*-statistic is -11.58, with a *p*-value of 0.0000, confirming stationarity across the variables under the assumption of a common unit root process. The Im, Pesaran, and Shin *W*-statistic is -13.18, and both the ADF Fisher Chi-square and PP Fisher Chi-square tests yield *p*-values of 0.0000, supporting stationarity with individual unit roots. These results indicate that the data used in the analysis are stable for meaningful regression analysis, ensuring the reliability of the findings.

### Johansen Cointegration Test

Table 6 presents the results of the Johansen Cointegration Test to examine the long-run equilibrium relationship between financial literacy and investment decisions.

Test	Statistic	Critical Value	<i>p</i> -value
Trace Test	187.7398	69.81889	0.0000
Maximum Eigenvalue Test	75.99059	33.87687	0.0000

Table 6 presents the results of the Johansen Cointegration Test, which examines the long-run equilibrium relationship between financial literacy and investment decisions. The Trace Test results indicate a strong long-term relationship among the variables, with a trace statistic of 187.74 significantly exceeding the critical value of 69.82 (*p*-value = 0.0000). Similarly, the Maximum Eigenvalue Test confirms the existence of cointegration with a statistic of 75.99, which is also above the critical value of 33.88 (*p*-value = 0.0000).

These findings suggest that the financial literacy variables analysed in this study are cointegrated with investment decision, indicating a stable long-term relationship among them.

### OLS Regression Analysis

Table 7 presents the results of the OLS regression analysis examining the relationship between financial literacy and investment decisions.

Variable	Coefficient	Std. Error	<i>t</i> -Statistic	Prob.
C	0.173979	0.040448	4.301294	0.0000
DFLR	0.090292	0.029347	3.076705	0.0042
CUR	0.083676	0.032302	2.590421	0.0147
FAO	0.007023	0.008311	0.845117	0.4047
PFEP	0.104342	0.035526	2.937043	0.0106
R-squared	0.991572	NA	NA	NA
Adjusted R-squared	0.990449	NA	NA	NA
F-statistic	882.4224	NA	NA	0.000097

*Table 7 presents the results of the OLS regression analysis, which examines the relationship between financial literacy variables and Investment Decision. The results indicate that DFLLR has a significant positive effect on INV\_DEC (p-value = 0.0042), supporting the hypothesis that higher digital financial literacy enhances investment behaviour. This finding aligns with the Financial Literacy Theory (FLT), which posits that financial knowledge directly influences financial outcomes (Huston, 2010). Similarly, CUR also shows a significant positive relationship with INV\_DEC (p-value = 0.0147), suggesting that effective credit utilisation contributes to increased Investment Decision. This is consistent with findings by Ogunleye et al. (2025), who noted that greater credit literacy positively affects investment behaviour.*

In contrast, FAO did not show a significant effect on INV\_DEC (p-value = 0.4047), leading to the acceptance of the null hypothesis for this variable. This result challenges the assumption that merely owning a formal account leads to higher investment decisions. Previous studies have reported similar findings, indicating that account ownership alone does not guarantee active investment behaviour (Kenny & Agbamu, 2024). However, the importance of PFEP is underscored by its significant positive relationship with INV\_DEC (p-value = 0.0106), reinforcing the notion that financial education is crucial for improving investment participation. This is supported by Sampson and Adedeji (2025), who found that financial education programmes significantly enhance investment behaviours among individuals.

## **SUMMARY OF FINDINGS**

The study's findings underscore the significant impact of financial literacy on investment decisions among small-scale retailers in North-Central Nigeria. Specifically, the results indicate that digital financial literacy, credit utilisation, and participation in financial education programmes positively influence investment decisions. These findings align with existing literature that emphasises the importance of financial literacy in enhancing investment participation and financial decision-making (Ogunleye et al., 2025; Sampson & Adedeji, 2025). Conversely, formal account ownership did not demonstrate a significant effect on investment decisions, suggesting that simply having an account is insufficient for driving investment behaviour. Overall, the research highlights the need for targeted financial literacy initiatives to empower small-scale retailers and promote sustainable economic growth in the region.

## **CONCLUSION**

This study highlights the critical impact of financial literacy on investment decisions among small-scale retailers in North-Central Nigeria, with risk perception serving as a significant mediating factor. The findings emphasise the need for comprehensive financial education programmes and initiatives to enhance digital financial literacy and credit utilisation practices.

## **CONTRIBUTIONS**

The findings of this study offer several contributions across theoretical, academic, and policy dimensions:

1. **Theoretical Contribution:** This research reinforces the Financial Literacy Theory by demonstrating how financial literacy variables directly influence investment decisions. It integrates the concept of risk perception as a mediating factor, thus enriching the theoretical framework surrounding financial literacy and investment behaviour.

2. **Academic Contribution:** This study adds to the existing body of literature on financial literacy and investment behaviour, particularly within the Nigerian context. Focusing on small-scale retailers in North-Central Nigeria, it provides empirical evidence that can serve as a foundation for future research in this area.

3. **Policy Contribution:** The findings highlight the need for policymakers to implement comprehensive financial literacy programmes tailored to the unique needs of small-scale retailers. This can enhance digital financial literacy and promote effective credit utilisation, ultimately fostering greater investment participation and economic growth.

## **LIMITATIONS**

While this study provides valuable insights, it is not without limitations:

1. **Data Limitations:** The reliance on secondary data may restrict the depth of understanding regarding individual behaviours and motivations. This can limit the ability to capture the nuances of financial decision-making among small-scale retailers.

2. **Geographical Limitations:** The study is focused on North-Central Nigeria, which may limit the generalisability of the findings to other regions in Nigeria or different contexts. Variations in socio-economic conditions and financial literacy levels across regions may yield different results.

## **FUTURE RESEARCH AREAS**

To address the limitations identified in this study, future research could explore the following areas:

Future research could incorporate qualitative methods, such as interviews or focus groups, to gain deeper insights into the financial behaviours and decision-making processes of small-scale retailers. This would provide a more comprehensive understanding of the factors influencing investment decisions.

Expanding the research to include other regions in Nigeria or different countries could provide a broader perspective on the impact of financial literacy on investment decisions. Comparative studies could help identify regional differences and best practices in financial literacy initiatives.

## **RECOMMENDATIONS**

1. **Enhancing Digital Financial Literacy:** Implement programmes aimed at improving digital literacy among small-scale retailers through workshops and public awareness campaigns.

2. **Promoting Credit Utilisation Knowledge:** Financial literacy programmes should focus on effective credit management to empower individuals in making informed credit decisions.

3. **Strengthening Financial Education Programs:** Integrate financial education into community initiatives and school curricula to equip individuals with the necessary financial skills.

4. **Addressing the Role of Formal Account Ownership:** Policymakers should promote not only account ownership but also the active use of these accounts in investment activities.

By addressing these recommendations, stakeholders can foster a more financially literate environment that encourages investment participation and drives economic growth in North-Central Nigeria.

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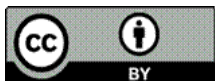
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