

The Moderating Role of Financial Literacy on the Influence of Entrepreneurial Competence on the Performance of Micro, Medium, Small Enterprises (MSME) in Buleleng Regency

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Abstract

This study aims to examine the moderating role of financial literacy on the effect of entrepreneurial competence on MSME performance. The population in this study comprises 66,368 MSME units in Buleleng Regency. The sample size was determined using Slovin's formula with a margin of error of 10%, resulting in a total of 100 MSMEs. Samples were selected using purposive sampling with the criterion that the MSMEs must have employees. The respondents in this study were MSME owners in Buleleng Regency. Data was collected using a questionnaire with a Likert scale ranging from 1 to 5. The data analysis technique employed was Structural Equation Modeling - Partial Least Squares (SEM-PLS), using the SmartPLS version 3 software. The results of this study indicate that both entrepreneurial competence and financial literacy have a significant effect on MSME performance. Furthermore, financial literacy strengthens the significant effect of entrepreneurial competence on MSME performance.

Keywords: *entrepreneurial competence, financial literacy, MSME performance*

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INTRODUCTION

MSMEs in Buleleng Regency face performance challenges, reflected in high levels of Non-Performing Loans (NPLs). High NPLs are caused by MSMEs' low performance, resulting in their inability to meet their credit obligations. A more detailed explanation reveals that the average NPL for MSMEs in Buleleng Regency over the past four years has been the highest in Bali Province. Data on MSME NPLs in Buleleng Regency over the past four years is presented in Table 1 below.

Table 1. The average MSME's NPL in Bali Province in 2021-2024

District / City	Average (%)				Average in past 4 years (%)
	Quarterly I-IV 2021	Quarterly I-IV 2022	Quarterly I-IV 2023	Quarterly I-IV 2024	
Buleleng	4,14	4,44	3,19	2,79	3,64
Klungkung	4,76	4,29	3,35	1,35	3,44

District / City	Average (%)				Average in past 4 years (%)
	Quarterly I-IV 2021	Quarterly I-IV 2022	Quarterly I-IV 2023	Quarterly I-IV 2024	
Karangasem	3,86	3,10	3,67	2,22	3,21
Denpasar	3,20	3,48	2,87	2,25	2,95
Badung	3,52	4,37	1,88	0,98	2,69
Jembrana	2,09	3,28	1,23	2,41	2,25
Tabanan	1,66	1,84	1,77	1,44	1,68
Gianyar	1,21	0,95	1,28	0,71	1,04
Bangli	1,29	1,17	1,13	0,46	1,01

Source: Bank Indonesia (2025).

Table 1 shows that the average NPL of MSMEs in Buleleng Regency over the past four years was the highest in Bali Province, at 3.64%. High NPLs indicate that companies are experiencing business performance issues (Anggitasari et al., 2023). The poor performance of MSMEs in Buleleng Regency leads to loan defaults, resulting in high NPLs (Utariani et al., 2024).

Performance in MSMEs is related to business performance. Business performance refers to the achievement of organizational goals that must be achieved for the organization's survival, consisting of financial and non-financial performance (Ur Rehman et al., 2019). Business performance describes the results achieved by a company from a series of work functions or activities within a specific time period (Heryanda et al., 2020). Profit is one aspect that indicates a business's performance (Suarmanayasa et al., 2021). MSME performance is influenced by many aspects. One theory that can explain aspects that impact company performance, including MSMEs, is the Resource-Based View (RBV). RBV is a theory that describes how owning, managing, and utilizing significant strategic assets, both tangible and intangible, will help a company operate well and outperform its competitors (Wernerfelt, 1984). Based on RBV, effective resource optimization can improve business performance (Irwansyah et al., 2024). One of the intangible resources owned by MSMEs is entrepreneurial competence, so that the Resource-Based View is the theory underlying the influence of entrepreneurial competence on MSME performance (Rehman et al., 2023; Soomro et al., 2025).

Entrepreneurial competency encompasses skills, insights, attitudes, and behaviors that enable entrepreneurs to navigate complex business environments (Rifani et al., 2025). There are four types of competency: intellectual, emotional, social, and spiritual (Bagia et al., 2021), with entrepreneurial competency being more focused on intellectual competency. Entrepreneurial competency is a component of human capital. Human resources within an organization play a crucial role in increasing the effectiveness and efficiency of an organization's management (Juniantari et al., 2023). High entrepreneurial competency can improve MSME performance because it reflects the ability of entrepreneurs to recognize

opportunities, make strategic decisions, manage resources, and innovate in products and business processes. Entrepreneurs with high competency tend to be more adaptive to market changes, able to build business networks, and manage risks more effectively, thus contributing to increased productivity, profits, and business sustainability.

Research output regarding the influence of entrepreneurial competency on MSME performance still faces inconsistencies. Research by Kisubi et al. (2022), Rehman et al. (2023), and Soomro et al. (2025) shows that entrepreneurial competency has a significant effect on MSME performance, while research by Hasanah et al. (2024), and Rifani et al. (2025) shows that entrepreneurial competency has no effect on MSME performance.

The performance of MSMEs, based on the RBV, is also influenced by financial literacy (Frimpong et al., 2022). Financial literacy is an intangible, insight-based asset possessed by MSME human resources. Financial literacy is defined as the insights, capabilities, and ideas that impact attitudes and actions to improve financial management and decision-making standards in order to achieve prosperity (Ye & Kulathunga, 2019). Financial literacy is a person's insight into managing finances (Wijayanti et al., 2024). Financial literacy is currently a concern, with the Financial Services Authority (OJK) implementing various strategies to improve public financial literacy (Dewi & Suwena, 2023). Financial literacy can improve MSME performance because business owners with financial insight and skills are able to prepare accurate bookkeeping, plan capital use, and distinguish between needs and wants in business expenses. With a good understanding of debt, they can take out loans wisely and manage them without burdening cash flow. Furthermore, the ability to save and invest allows MSMEs to build cash reserves and develop their businesses sustainably. All these aspects directly support increased sales, cost efficiency, and business competitiveness in the market.

Previous research on the impact of financial literacy on MSME performance has been inconsistent. Research by Frimpong et al. (2022), Fikri & Nahda (2023), and Abdallah et al. (2024) showed that financial literacy significantly impacts MSME performance, while research by Christanty et al. (2023) showed no impact on MSME performance.

Entrepreneurs with high entrepreneurial competency and good financial literacy will be able to achieve optimal performance. Financial literacy can significantly strengthen the influence of entrepreneurial competency on MSME performance because it helps entrepreneurs manage finances effectively, make informed decisions, and avoid financial risks. Good financial knowledge and skills support entrepreneurs with high competency in implementing business strategies in a more measurable and sustainable manner. Therefore, financial literacy plays a role in strengthening the relationship between entrepreneurial competency and MSME performance. Previous research output still shows inconsistent effects of entrepreneurial competency and financial literacy on MSME performance. This condition makes the moderating ability of financial literacy on the influence of entrepreneurial competency on MSME performance uncertain.

This research builds on Kisubi et al.'s (2022) research on the impact of entrepreneurial competence on MSME performance, mediated by firm capabilities. The researchers modified the research model by replacing the mediation of firm

capabilities with moderation by financial literacy. Previous research was conducted on MSMEs in Uganda, while this research was implemented on MSMEs in Buleleng Regency. This research aims to determine the moderating role of financial literacy in the impact of entrepreneurial competence on MSME performance.

METHODOLOGY

This research is quantitative. The population in the study is 66,368 MSMEs in Buleleng Regency (Bali Province Cooperatives and Small and Medium Enterprises Office, 2023). The sample in the study is MSMEs in Buleleng Regency. The total sample was obtained using the Slovin formula with an error rate of 10%, resulting in a sample of 100 MSMEs in Buleleng Regency. Sample selection was realized using a purposive sampling technique with the criteria of MSMEs having employees. Respondents in this study were MSME owners in Buleleng Regency. Owners know everything about their businesses, so business owners are the most appropriate parties to fill out the questionnaire to provide accurate, relevant, and bias-free information. This research uses primary data collected through a questionnaire with a Likert scale of 1 to 5. The data analysis technique used SEM-PLS assisted by the SmartPLS application version 3.

RESULT AND DISCUSSION

The data analysis technique used in this research was SEM-PLS, which consists of an outer model, an inner model, and hypothesis testing. The outer model tests validity and reliability, consisting of Convergent Validity, Discriminant Validity, and Composite Reliability. Convergent validity testing can be seen from the loading factor for each construct indicator. A loading factor value >0.7 is the ideal value, meaning the indicator is valid in measuring the construct it forms (Ghozali & Latan, 2020). The output of the convergent validity test is presented in Table 2 below.

Table 2. Convergent Validity

	MSME Performance (Y)	Entrepreneurial Competence (X)	Financial Literacy (M)	Moderatio n of M over X
Entrepreneurship Competence (X) *				1,145
Financial Literacy (M)				
M.1			0,876	
M.2			0,839	
M.3			0,897	
M.4			0,895	
M.5			0,827	
X.1		0,918		

X.2	0,907
X.3	0,901
X.4	0,810
X.5	0,791
X.6	0,840
X.7	0,781
Y.1	0,882
Y.2	0,890
Y.3	0,848
Y.4	0,911

Source: Output SmartPLS version 3 (2025).

Table 2 shows that all variable indicators have outer loading values greater than 0.70, indicating that each indicator meets validity. This indicates that the measuring instrument or indicator is capable of accurately measuring what it is supposed to measure.

The next test is discriminant validity. For a latent construct to have better predictive power than the indicators within its own block, the correlation between the construct and its indicators must be greater than the correlation between the indicators and other constructs. An indicator is also considered valid if it has a cross-loading value above 0.7 (Ghozali & Latan, 2020). The discriminant validity test is presented in Table 3 below.

Table 3. Discriminant Validity

	MSME Performance (Y)	Entrepreneurial Competence (X)	Financial Literacy (M)	Moderation of M over X
Entrepreneurship Competence (X) * Financial Literacy (M)	0,380	0,076	0,254	1,000
M.1	0,598	0,100	0,876	0,272
M.2	0,443	0,101	0,839	0,176
M.3	0,579	0,161	0,897	0,206
M.4	0,525	0,104	0,895	0,291
M.5	0,438	0,127	0,827	0,130

X.1	0,353	0,918	0,170	0,108
X.2	0,290	0,907	0,109	0,042
X.3	0,209	0,901	0,105	0,007
X.4	0,249	0,810	0,146	0,099
X.5	0,056	0,791	0,057	0,057
X.6	0,122	0,840	0,144	0,036
X.7	0,176	0,781	0,015	0,066
Y.1	0,882	0,250	0,528	0,346
Y.2	0,890	0,274	0,582	0,384
Y.3	0,848	0,312	0,403	0,265
Y.4	0,911	0,196	0,594	0,335

Sumber: Output SmartPLS version 3 (2025).

Pengujian terakhir adalah composite reliability. Nilai ambang batas composite reliability ditetapkan $> 0,7$ (Abdillah & Hartono, 2015). Output composite reliability dimuat pada Tabel 4 berikut.

Table 3 shows that the correlation between the construct and its indicators is higher than the correlation between the indicators and other constructs, and the cross-loading of all variable indicators is above 0.70, indicating that all indicators are valid. Therefore, the measuring instrument or indicators used accurately measure what they are supposed to measure.

The final test is composite reliability. The threshold value for composite reliability is set at >0.7 (Abdillah & Hartono, 2015). The composite reliability output is presented in Table 4 below.

Table 4. Composite Reliability

	<i>Composite Reliability</i>
MSME PErformance (Y)	0,934
Enterpreneurial Competence (X)	0,948
Financial Literacy (M)	0,938
Moderation of M over X	1,000

Source: Output SmartPLS version 3 (2025).

Table 4 shows that all variables have a composite reliability higher than 0.70, indicating that all variables are reliable. This indicates that the indicators can stably and accurately produce similar data when repeated measurements are taken.

The next stage of testing is the inner model, which consists of R-square, Stone-Geisser Q-square, and Goodness of Fit. R-square values of 0.75, 0.50, and 0.25

indicate strong, moderate, and weak model fit, respectively (Ghozali & Latan, 2020). A higher R² value indicates a good predictive model and is suitable for use in research. The results of the R-square (R²) test are presented in Table 5 below.

Table 5. R Square

	<i>R Square</i>
MSME Performance (Y)	0,459

Source: Output SmartPLS version 3 (2025).

Table 5 shows the R-square value for MSME performance (Y) of 0.459, indicating a weak model because it is above 0.25 and below 0.50. This value indicates that MSME performance is influenced by entrepreneurial competence, financial literacy, and the interaction between entrepreneurial competence and financial literacy, amounting to 45.9%. The remaining 54.1% is influenced by other variables such as entrepreneurial orientation, innovation, work ethic, and training.

The Q-square value evaluates the accuracy of the model's observed values and the precision of its parameter estimates. A Q-square value greater than 0 indicates the model has predictive significance, while a Q-square value less than 0 indicates reduced predictive relevance. Q-square values of 0.02, 0.15, and 0.35 indicate weak, moderate, and strong research models, respectively (Ghozali & Latan, 2020). The Q-square values are presented in Table 6 below.

Table 6. Test Result Q Square

	SSO	SSE	Q ² (=1-SSE/SSO)
MSME Performance (Y)	400,000	263,701	0,341
Enterpreneurial Competence (X)	700,000	700,000	
Financial Literacy (M)	500,000	500,000	
Modernization M over X	100,000	100,000	

Source: Output SmartPLS version 3 (2025).

Table 6 shows that MSME performance (Y) has a Q² value > 0, namely 0.341, indicating that the model has good predictive relevance, with a moderate model, as it is above 0.15 and below 0.35.

The Gof assessment examines the SRMR value, where a research model is considered fit when it has an SRMR below 0.08 (Ghozali & Latan, 2020). The goodness of fit in this study is presented in Table 7 below.

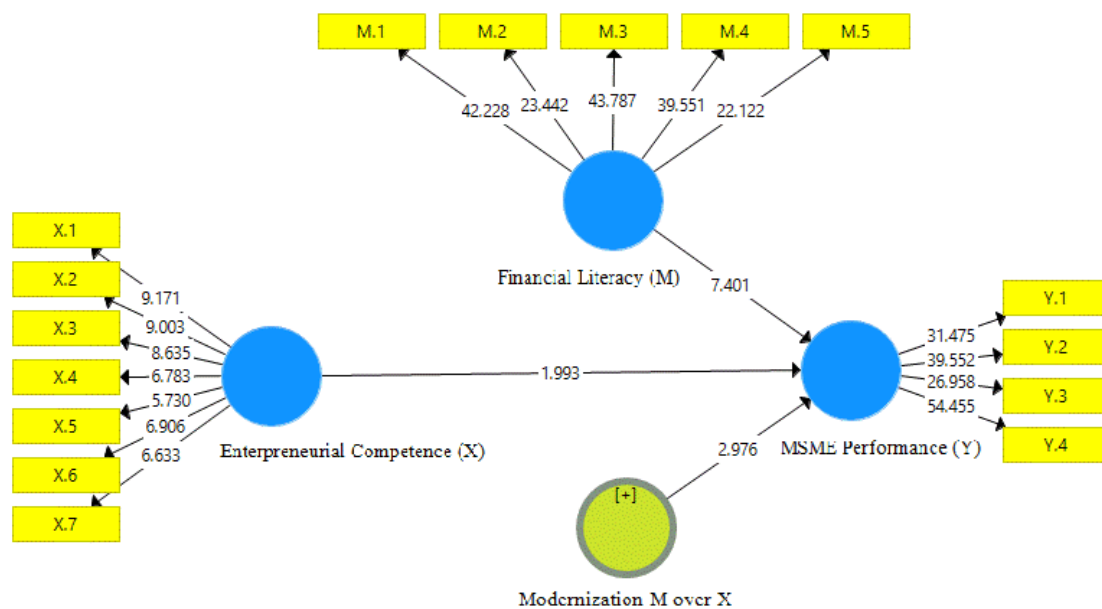
Table 7. Goodness of Fit

	Estimated Model
SRMR	0,066

Sumber: Output SmartPLS versi 3 (2025).

Table 7 shows that the SRMR value for this research model is below 0.08, at 0.066, indicating a good fit.

The final stage is hypothesis testing, the output of which is shown in Figure 1 below.



Picture 1. Hypotesis Testing

Details of the hypothesis testing output are contained in Table 8 below.

Table 8. Hypotesis Testing

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Entrepreneurial Competence (X) -> MSME performance (Y)	0,200	0,210	0,100	1,993	0,047
Financial Literacy (M) -> MSME performance (Y)	0,517	0,517	0,070	7,401	0,000
Modernization M over X -> MSME performance (Y)	0,205	0,193	0,069	2,976	0,003

Source: Output SmartPLS version 3 (2025).

Table 8 shows that the first and second hypotheses have significant influence coefficients and P-values <0.05, so both hypotheses are accepted, namely entrepreneurial competence and financial literacy have a significant impact on MSME performance. The third hypothesis shows a significantly greater influence coefficient than the first hypothesis (0.205 > 0.200) and has a P-value <0.05. Therefore, the third hypothesis is accepted, meaning financial literacy strengthens the significant influence of entrepreneurial competence on MSME performance.

The Influence of Entrepreneurial Competence on MSME Performance in Buleleng Regency

Research findings show that entrepreneurial competence significantly influences MSME performance in Buleleng Regency. Entrepreneurial competence significantly impacts MSME performance because each indicator supports overall business growth. An opportunistic attitude encourages MSMEs to seize market opportunities that can increase sales. Organizational and execution skills ensure efficient resource management, impacting capital and workforce growth. The ability to build networks and establish relationships expands market access and collaborations, contributing to market growth. Commitment and innovative thinking foster business sustainability and competitiveness, which overall improves MSME performance.

The influence of entrepreneurial competence on MSME performance is based on the RBV (Rehman et al., 2023; Soomro et al., 2025). RBV is a theory that describes how owning, managing, and utilizing significant strategic assets, both tangible and intangible, will help a company operate well and outperform its competitors (Wernerfelt, 1984). One of the intangible resources possessed by MSMEs is entrepreneurial competence. Entrepreneurial competence encompasses skills, knowledge, attitudes, and behaviors that enable entrepreneurs to face complex business environments (Rifani et al., 2025). High entrepreneurial competence can improve MSME performance because it reflects the ability of entrepreneurs to recognize opportunities, make strategic decisions, manage resources, and innovate in products and business processes. Entrepreneurs with high competence tend to be more adaptive to market changes, able to build business networks, and manage risks more effectively, thus contributing to increased productivity, profits, and business sustainability. This research output is strengthened by research by Kisubi et al. (2022), Rehman et al. (2023), and Soomro et al. (2025).

The Impact of Financial Literacy on MSME Performance in Buleleng Regency

Research findings show that financial literacy significantly impacts MSME performance in Buleleng Regency. Financial literacy significantly impacts MSME performance because a good understanding of bookkeeping, savings, debt, investment, and insurance helps MSMEs manage their finances more effectively. Bookkeeping literacy enables accurate transaction recording, thus supporting business decision-making that increases sales and capital. Savings literacy encourages the accumulation of reserve funds for business expansion. Understanding debt allows for the wise use of loans to encourage workforce growth and production capacity. Investment and insurance literacy helps MSMEs manage risk and develop markets sustainably.

The influence of financial literacy on MSME performance is based on the RBV (Frimpong et al., 2022). RBV is a theory that explains how companies that own, control, and utilize key strategic assets, both tangible and intangible, will perform well and excel in commercial competition (Wernerfelt, 1984). Financial literacy is a knowledge-based intangible asset possessed by human resources in MSMEs. Financial literacy is defined as insight to improve the quality of financial management and decision-making, as well as achieving well-being. Information,

skills, and beliefs impact attitudes and behavior (Ye & Kulathunga, 2019). Financial literacy can improve MSME performance because business owners with financial insight and skills are able to prepare accurate bookkeeping, plan capital use, and distinguish between needs and wants in business expenditures. With a good understanding of debt, they can take out loans wisely and manage them without burdening cash flow. Furthermore, the ability to save and invest allows MSMEs to build cash reserves and develop their businesses sustainably. All of these aspects directly support increased sales, cost efficiency, and business competitiveness in the market. This research output is strengthened by research by Frimpong et al. (2022), Fikri & Nahda (2023), and Abdallah et al. (2024).

Financial Literacy Moderation in the Effect of Entrepreneurial Competence on MSME Performance in Buleleng Regency

Research results show that financial literacy strengthens the influence of entrepreneurial competence on MSME performance because financial understanding helps entrepreneurs manage innovation, build networks, and execute plans more effectively, thereby driving growth in sales, capital, workforce, and markets. The moderating role of financial literacy in the influence of entrepreneurial competence on MSME performance is based on the RBV (Resource-Based Financial Values). RBV is a theory that explains how companies that own, control, and utilize key strategic assets, both tangible and intangible, perform well and excel in commercial competition (Wernerfelt, 1984). Financial literacy is one of the intangible assets based on human resource knowledge possessed by a business. Entrepreneurs with high entrepreneurial competence and good financial literacy will be able to achieve optimal performance. Financial literacy can significantly strengthen the influence of entrepreneurial competence on MSME performance because it helps entrepreneurs manage finances effectively, make informed decisions, and avoid financial risks. Good financial knowledge and skills support entrepreneurs with high competence in implementing business strategies in a more measurable and sustainable manner. Therefore, financial literacy plays a role in strengthening the relationship between entrepreneurial competence and MSME performance. This research is supported by research by Kisubi et al. (2022), Rehman et al. (2023), and Soomro et al. (2025), which shows that entrepreneurial competence significantly impacts MSME performance. Furthermore, research by Frimpong et al. (2022), Fikri & Nahda (2023), and Abdallah et al. (2024) demonstrates that financial literacy significantly impacts MSME performance.

References and Hypotesis Development

Resource-Based View

The Resource-Based View (RBV) is a theory that describes the ownership, management, and utilization of significant strategic assets, both tangible and intangible, that will help a company operate effectively, achieve high performance, and outperform its competitors (Wernerfelt, 1984). Companies that manage their resources strategically and methodically can improve performance and gain a competitive advantage (Abdulwase et al., 2020).

MSME Performance

Performance is the achievement of activities (Okadarma et al., 2024). Business performance refers to the achievement of organizational goals that must be achieved for the organization's survival, consisting of financial and non-financial performance (Rehman et al., 2019). Business performance is also defined as the results achieved by a business over a specific period, including those impacted by operational activities and the current use of its resources (Hutabarat, 2021). Businesses or companies are required to evaluate and improve performance periodically to ensure their continued existence (Nirmala et al., 2022). Business performance is measured using indicators according to research by Abdallah et al. (2024), namely sales growth, capital growth, workforce growth, and market growth.

Entrepreneurial Competence

Entrepreneurial competency encompasses the skills, knowledge, attitudes, and behaviors that enable entrepreneurs to navigate complex business environments (Rifani et al., 2025). Entrepreneurial competency is measured using indicators based on research by Kisubi et al. (2022): opportunism, organizational skills, networking skills, relationship building skills, commitment, execution skills, and innovative thinking.

Financial Literacy

Financial literacy is defined as the insights, capabilities, and beliefs that influence emotions and behaviors to improve financial management and decision-making for well-being (Ye & Kulathunga, 2019). Financial literacy is measured using indicators according to research by Abdallah et al. (2024): bookkeeping literacy, savings literacy, debt literacy, investment literacy, and insurance literacy.

Inter-Variable Influence

The influence of entrepreneurial competence on MSME performance is based on the RBV (Rehman et al., 2023; Soomro et al., 2025). RBV is a theory that describes how owning, managing, and utilizing significant strategic assets, both tangible and intangible, will help a company operate effectively and outperform its competitors (Wernerfelt, 1984). One of the intangible resources possessed by MSMEs is entrepreneurial competence. High entrepreneurial competence can improve MSME performance because it reflects the ability of entrepreneurs to recognize opportunities, make strategic decisions, manage resources, and innovate products and business processes. Entrepreneurs with high competence tend to be more adaptive to market changes, able to build business networks, and manage risks more effectively. Research by Kisubi et al. (2022), Rehman et al. (2023), and Soomro et al. (2025) shows that entrepreneurial competence has a significant impact on MSME performance. Therefore, the first hypothesis proposed is:

H1: Entrepreneurial competence has a significant influence on MSME performance.

The impact of financial literacy on MSME performance is based on the RBV (Frimpong et al., 2022). RBV is a theory that explains that companies that own, control, and utilize significant strategic assets, both tangible and intangible, will

perform well and outperform their competitors (Wernerfelt, 1984). Financial literacy is an insight-based intangible asset possessed by human resources in MSMEs. Financial literacy can improve MSME performance because business owners with financial knowledge and skills are able to prepare accurate bookkeeping, plan capital use, and distinguish between needs and wants in business expenditures. A good understanding of debt supports wise loan taking. The ability to save and invest enables MSMEs to build cash reserves and develop their businesses sustainably. Research by Frimpong et al. (2022), Fikri & Nahda (2023), and Abdallah et al. (2024) shows that financial literacy has a significant impact on MSME performance. Therefore, the second hypothesis proposed is:

H2: Financial literacy has a significant effect on MSME performance.

The moderating role of financial literacy in the impact of entrepreneurial competence on MSME performance is based on the RBV. RBV is a theory that explains that companies that own, control, and utilize significant strategic assets, both tangible and intangible, will have good performance and outperform their competitors (Wernerfelt, 1984). Financial literacy is one of the intangible assets based on human resource knowledge owned by a business. Entrepreneurs with high entrepreneurial competence, as well as good financial literacy, will be able to achieve optimal performance. Financial literacy can strengthen the significant influence of entrepreneurial competence on MSME performance because financial literacy helps business actors manage finances effectively, make the right decisions, and avoid financial risks. Research by Kisubi et al. (2022), Rehman et al. (2023), and Soomro et al. (2025) shows that entrepreneurial competence has a significant impact on MSME performance, then research by Frimpong et al. (2022), Fikri & Nahda (2023), Abdallah et al. (2024) showed that financial literacy significantly impacts MSME performance. Therefore, the third hypothesis proposed is:

H3: Financial literacy significantly strengthens the influence of entrepreneurial competence on MSME performance.

CONCLUSION

This research output partially demonstrates that entrepreneurial competence and financial literacy significantly impact MSME performance, and that financial literacy significantly strengthens the impact of entrepreneurial competence on MSME performance. This study has limitations, namely the use of only one independent variable, moderating variable, and dependent variable. Therefore, future researchers are advised to include more variables that influence MSME performance, such as entrepreneurial orientation, innovation, work ethic, and training.

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