

# Covid-19 Pandemic And Torism SMES: Exploring Impact, Strategies, Required Policies, And Business Sustainability

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## ABSTRACT

This paper examines the impacts, strategies, policies needed, and the sustainability of small and medium enterprises in the tourism sector (SME-Tourism) in the face of the Covid-19 pandemic. We used an exploratory research design with a survey approach to 384 SME-Tourism in Indonesia in 2022. The data was collected through interviews with the help of a questionnaire. The data analysis used a simple descriptive analysis model, and the results showed that the pandemic had a broad impact on SME-Tourism, and the impacts tended to overlap with each other. This shows the complexity of their problem. To that end, they implemented a number of strategies to reduce the worse impact. Unfortunately, the strategy they use is not effective if it is not supported by a number of policy packages from the government. Without policy support, most of them cannot predict the viability of their business. Only a small percentage are optimistic that it will last for the next three months, while others are pessimistic that it will last less than three months. Therefore, the right policy package is highly expected from the government, while SME-Tourism itself needs to increase creativity and innovation in various aspects of its business, including in the fields of marketing, production, finance, human resources, and organization.

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## I. Introduction

The Coronavirus Disease-2019 (Covid-19) pandemic that hit the world at the end of 2019 has had a broad impact on all aspects of human life around the world, including tourism SMEs (SME-Tourism) in Indonesia. The Central Statistics Agency (BPS) noted that overall, the annual production growth of SMEs in Indonesia in 2020 fell to -17.63% from 5.8% in 2019. Specifically, Tourism SMEs fell deeper, namely -94.27% from 19.21% in 2019. One of the reasons for this decline was the policy of large-scale social restrictions, which had to be enforced to prevent the spread of the virus. As a result, the productivity of the tourism industry has decreased, accompanied by a weakening of people's purchasing power. Besides that, BPS also recorded a decrease in the number of workers by up to 8.

Globally, the impact of the pandemic on business has been studied extensively, including in SMEs-Tourism. Specifically, [1], stated that the tourism sector was the sector most vulnerable to being affected by the outbreak, due to delays in tourist visits and demand for tourism products/services. The consequence is a slowdown in their cash flow, which can prevent them from returning to normal conditions. Specifically, Kharbikar et al. (2020) studied this in the Indian context. They found that the Covid-19 pandemic had caused unemployment, poverty and a recession due to the closure of transportation, marketing and business activities. In addition, tourist visits were also affected due to the closure of tourist objects and transportation facilities. As a result, the supply chain of the tourism sector experienced a severe fall. Meanwhile, [2], in Nigeria also reported that the Covid-19 pandemic and lockdown policies had a negative impact on tourism revenue.

This study aims to explore four things. First, exploring the impact of the Covid-19 pandemic based on the perceptions of entrepreneurs in the tourism sector. Second, explore how their strategy is in dealing with these impacts. What policies do they expect from stakeholders, especially the government for the continuity of their business. Fourth, how does the expected impact of the pandemic, strategies

and policies on their business continuity. To achieve this goal, this study uses an exploratory research design with a survey approach. Through this survey it is hoped that it can provide new information to the public, provide a basic description of the topic for further discussion, generalize ideas and develop tentative theories, opens the possibility for further research to be held and determines the techniques and directions to be used in subsequent research. This study also wants to propose policies and provide scientific measures that can be adopted to address this disorder and reduce similar occurrences in the future.

## II. Methods

This study uses an exploratory research method with a survey approach. An exploratory study has the potential to provide first insights into the research phenomenon under investigation[3];[4];[5], This study uses quantitative and qualitative data, obtained through the distribution of questionnaires. The use of these two data sources provides an opportunity to triangulate the data in order to increase more conclusions from the results.

The research respondents were entrepreneurs from tourism SMEs in Indonesia. UKM-Tourism includes tourist transportation services, tour travel services, organizing entertainment and recreational activities, organizing meetings/conferences/exhibitions, tourism consulting services, tour guide services, and spa (sante par aqua) (Ministry of Tourism and Creative Economy of the Republic of Indonesia). The number of respondents is determined based on the Krejcie and Morgan formula:

$$n = \frac{x^2 \cdot N \cdot (1 - P)}{(N - 1) \cdot d^2 + x^2 \cdot (1 - P)}$$

where: n is the sample size; N is the size of the population (based on data from BPS, the number of SMEs in Indonesia in 2020 is 65 million);  $x^2$  is chi-squared (3.841); P is the proportion of the population; and d<sup>2</sup> is the estimation error (0.05). Based on this formula, 384 samples (respondents) were obtained. Furthermore, respondents were randomly and proportionally selected for each province. The proportion of respondents for each province is determined based on the ratio of the number of provincial SMEs to the total national SMEs.

Data were obtained through interviews assisted by questionnaires. Interviews were conducted by telephone, and no incentives were offered or provided to respondents. We use the SME database or directory from the Indonesian Ministry of Cooperatives and MSMEs for this process. The questionnaire contains 24 closed question items, of which 6 are to explore the impact of the pandemic on SMEs (reference:[6] [7] [8] 7 for strategies for dealing with a pandemic, 7 for expected policies/assistance (reference:[9];[10];[10];[11], and 4 for business continuity (reference:[9];[12];[13];[14];[15];[16], Specifically, the question items in the questionnaire can be seen in the Appendix.

The data used for this analysis is data for 2020, which was collected in early 2021. Data analysis used general statistical analysis. In addition, we also use correlational analysis as an additional analysis, which is expected to strengthen and enrich our findings.

## III. Results And Discussion

### A. Profile of Entrepreneurs (Respondents) and UKM-Tourism in Indonesia

The results showed that the majority of respondents or UKM-Tourism surveyed were engaged in organizing entertainment and recreation activities (56.56%), then tourism travel services (23.54%), tourism transportation services (7.35%), and spa (1.99%).. Geographically, the highest distribution of respondents (SMEs) was in Central Java (21.33%), then East Java (19.68%) and West Java (14.87%), while the minority were in West Papua (0.11%), North Kalimantan (0.12%) ), and Papua (0.29%). Specifically, their distribution can be seen in Figure 1.

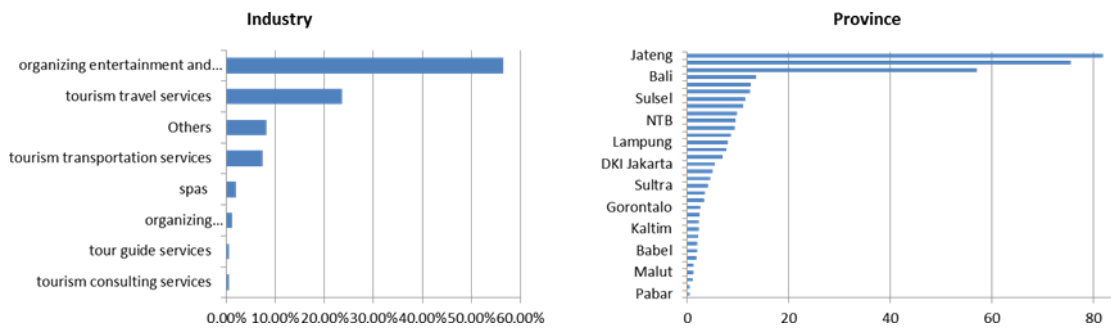


Fig. 1. Distribution of Respondents (SMEs) by Industry and Geographic

Most of the respondents (entrepreneurs) surveyed were male (51.76%) and the rest were female (48.24%). Based on age, the majority of them were around 45-64 years old (50.81%), then around 25-44 years old (39.39%), over 64 years old (8.60%), and around 20-24 years old (1.10%). The respondents (entrepreneurs) who are under 20 years old are only 0.09%. Based on education level, the majority of them were elementary school graduates (37.50%), followed by high school graduates (21.04%) and junior high school graduates (20.99%), and around 17.02% were controlled by entrepreneurs who did not graduate from elementary school. As for SMEs controlled by entrepreneurs who graduated from high schools, such as diplomas, bachelors and postgraduates, very few. Meanwhile, there is a positive and significant correlation between gender and the age and educational level of entrepreneurs. This shows that male entrepreneurs are predominantly older, but have a higher level of education than female entrepreneurs. Specifically, this can be seen in Figure 2 and Table 1.

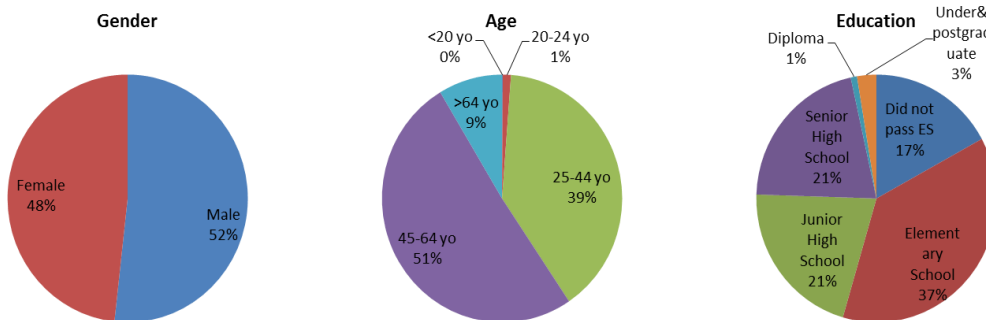


Fig. 2. Profile of Respondents (Entrepreneurs)

Figure 3 displays the profiles of the surveyed SMEs. The majority of them have small company sizes, with total assets of under IDR 10 million. Approximately 55.12% have medium size (total assets of around IDR 25-100 million), and only 20.47% have relatively large sizes, with total assets above IDR 100 million. Based on the number of employees, almost all (92.87%) had less than 5 employees, and only 7.13% had more than 5 employees. Based on capital, most (24.41%) of their capital comes from owners, 22.84% comes from external parties, and the other 18.16% is mixed. Based on legality, almost all of them (99.11%) do not have legal entities or are called individual companies. Only 0.89% of them have business legality as a partnership company, these include CVs (commanditaire vennootschap), trade associations (Firms), and Cooperatives. None of the SMEs surveyed have legality as a corporation (limited liability company). Based on working days, around 57.99% of them have working days around 21-31 days per month, another 27.01% have working days around 11-20 days per month, and only 15.00% have working days around 1-10 days. Based on annual income, the majority (24.41%) have income below IDR 10 million per year, 22.84% have annual income around IDR 10-24 million, 20.47% above IDR 99 million, 18.16% around IDR 25-49 million, and the other 14.12% around IDR 50 -99 million. Based on working days, around 57.99% of them have working days around 21-31 days per month, another 27.01% have working days around 11-20 days per month, and only 15.00% have working days around 1-10 days. Based on annual income, the majority (24.41%) have income below IDR 10 million per year, 22.84% have annual income around IDR 10-24

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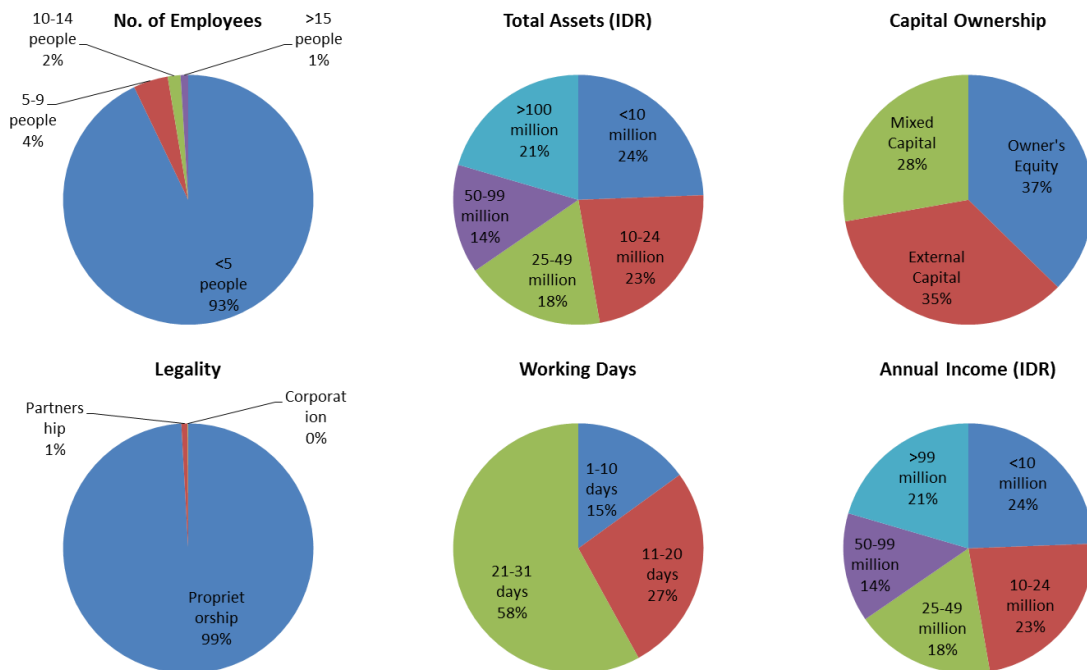


Fig. 3. SME Profile

Firm size is positively correlated with capital ( $r = 0.84$ ), working days ( $r = 0.79$ ), and annual income ( $r = 0.85$ ) (see Table 1). This shows that the larger the size of the company, the greater the capital and the higher their working days. As a result, they tend to earn a larger annual income than their smaller counterparts. In line with this, the number of employees is also positively correlated with capital ( $r = 0.21$ ), legality ( $r = 0.59$ ), working days ( $r = 0.19$ ), and annual income ( $r = 0.36$ ). Besides being correlated with the size and number of employees, capital is also positively correlated with working days ( $r = 0.91$ ) and annual income ( $r = 0.89$ ). This shows that the more the number of employees, the higher the working day of employees.

Table 1. Correlation between Entrepreneur Demographics and SME Characteristics

	Gen.	age	Edu.	size	Em.	Stamp.	Legal.	Work.	Incom.
Entrepreneur Profile									
Gender	1.00	0.80***	0.78***	-0.03	0.01	0.01	-0.03	0.06	0.09*
age	0.80***	1.00	0.81***	-0.01	-0.04	0.03	-0.05	0.11**	0.10*
Education	0.78***	0.81***	1.00	-0.00	-0.02	0.04	-0.02	0.12**	0.85***
SME Profile									
size	-0.03	-0.01	-0.00	1.00	-0.01	0.84***	-0.05	0.79***	0.85***
Employees	0.01	-0.04	-0.02	-0.01	1.00	0.21***	0.59***	0.19***	0.36***
Capital	0.01	0.03	0.04	0.84***	0.21***	1.00	0.08	0.91***	0.89***
Legality	-0.03	-0.05	-0.02	-0.05	0.59***	0.08	1.00	0.07	0.13***
Working Days	0.06	0.11**	0.12**	0.79***	0.19***	0.91***	0.07	1.00	0.81***

Annual Income	0.09*	0.10*	0.85***	0.85***	0.36***	0.89***	0.13***	0.81***	1.00
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Besides being correlated with the size and number of employees, capital is also positively correlated with working days ( $r = 0.91$ ) and annual income ( $r = 0.89$ ). This shows that SMEs with large capital tend to have more working days, thereby encouraging greater annual income. Directly, legality and working days also have a positive correlation with annual income. This shows that SMEs that have legality tend to get a greater annual income, thus with the correlation between working days and annual income.

Demographic aspects of entrepreneurship, such as gender, age, and level of education generally do not have a significant correlation with the characteristics of SMEs. Specifically, entrepreneur gender is only correlated with annual income, but at a weak significance. Meanwhile, entrepreneur's age is only correlated with working days ( $r = 0.11$ ) and annual income ( $r = 0.10$ ). The positive correlation between entrepreneur age and working days and annual income suggests that SMEs that have high working days tend to be controlled by older entrepreneurs, and therefore they tend to earn higher annual income. In contrast, SMEs controlled by young entrepreneurs tend to have fewer working days, and therefore their annual income is lower. In line with that, educational level also correlated with the entrepreneur's age, days worked, and annual income. This condition indicates that SMEs controlled by old entrepreneurs tend to be more professional and productive than those controlled by young entrepreneurs.

### B. Impact of the Covid-19 Pandemic on SMEs

The Covid-19 pandemic that hit in 2020 not only had an impact on the health sector, but also on the socio-economic sector, including tourism SMEs. One of the factors triggering this impact is the implementation of social restrictions, including restrictions on access to transportation and closing markets, all of which are aimed at curbing the spread of the virus. With this policy, the space for movement and community activities is very limited, so that it has a negative impact on the performance of SMEs.

The results of our survey show that the majority of tourism SMEs or around 70.75% have been affected by the Covid-19 pandemic. Specifically, the food industry experienced the greatest impact, followed by the wood and wicker industry, while the pharmaceutical and herbal industries experienced the smallest impact. Geographically, SMEs in Central Java felt the worst impact, followed by SMEs in East Java, West Java and Bali, while SMEs in North Kalimantan, Maluku, North Maluku, Papua and West Papua experienced the smallest impact.

The impact of the pandemic felt by tourism SMEs is quite varied. The majority of them were decreased sales (93.08%), followed by the high cost of raw materials (27.11%), delays in payment of sales (24.64%), and scarcity of raw materials (16.85%). The decline in sales was triggered by changes in consumer behavior during the pandemic, where they tend to be more selective due to very dynamic and unpredictable conditions. In addition, the pandemic also had an impact on reduced worker attendance (6.21%) and others (4.18%). Some SMEs also feel a multi-layered impact, where on the one hand, they experience a decline in sales, while on the other hand they also feel the cost and scarcity of raw materials, delays in payments from consumers, reduced worker attendance, and others. Substantially,

Table 2. Impact of the Covid-19 Pandemic

	Total	%	SD	DPoS	Specific Impacts			
					SoRM	ERM	RWA	Others
Panel A. Statistics								
Pandemic Impact								
YES	272	70.75	93.08%	24.64%	16.85%	27.11%	6.21%	4.18%
NO	112	29.25						
Panel C. Correlation with Entrepreneurial and SME Profiles								
Entrepreneurial								
Gender (r)			0.26***	0.05	-0.16***	0.03	-0.06	0.03
age(r)			0.27***	0.02	-0.09	0.06	0.01	0.12**

Education (r)			0.26***	0.06	-0.09	0.04	-0.05	-0.01
high school								
Size(r)			0.32***	0.76***	0.71***	0.78***	0.45***	0.36***
Employees (r)			0.00	0.00	0.00	0.01	0.02	0.00
Capital (r)			0.33***	0.70***	0.56***	0.75***	0.32***	0.25***
Legalty (r)			0.00	0.00	0.00	0.02	0.01	0.01
Working Days(r)			0.43***	0.61***	0.48***	0.65***	0.27***	0.22***
Ann. Income (r)			0.31***	0.75***	0.66***	0.78***	0.53***	0.42***

Even though the majority of tourism SMEs were affected by the pandemic, the effects felt by each SMEs were different. This can be seen from the correlation between the impact of the pandemic and the characteristics of entrepreneurs and SMEs themselves (see Table 2). The majority of the impact of the pandemic is related to the characteristics of the SMEs themselves, while the relation to the characteristics of the entrepreneurs is only in the minority. Specifically, the vulnerability and resilience of tourism SMEs in facing risk exposure from the Covid-19 pandemic is highly dependent on company size, capital availability, number of working days/hours, and annual income. Tourism SMEs that are large in size, have large capital, have busy working days/hours, and with high annual income tend to be more vulnerable to being affected by the pandemic, and they are also less able to control this impact.

### C. Tourism SME Strategy for Facing/Reducing the Impact of the Covid-19 Pandemic

The various impacts of the Covid-19 pandemic on tourism SMEs have also triggered the implementation of various business strategies. The business strategy adopted by each tourism UKM is aimed at surviving during the pandemic. Most strategies taken by tourism SMEs for this purpose are reducing working days/hours (82.06%), reducing the number of workers or terminating employment (16.26%), stopping production activities (15.19%), conducting online marketing (9.89%), closing businesses in the industry go to other industries (1.81%), only change product specifications or characteristics (1.53%), and leave existing products and switch to other products (0.53%). The majority of them also implemented a layered strategy, for example, apart from reducing working days/hours, they also made online sales, laid off some workers, changing product characteristics or specifications, etc. This can be seen from the high correlation between the existing strategies (see Table 3, Panel B).

Table 3. SMEs Strategy to Overcome/Reduce the Impact of the Covid-19 Pandemic

	SPA	RW	RWD/H	DOM	CP	ISPs	STOI
Panel A. Statistics							
Total (%)	15.19	16.26	82.06	9.89	1.53	0.53	1.81
Panel B. Correlation between Strategies							
SPA(r)	1.00	0.96***	0.20***	0.79***	0.29***	0.14**	0.32***
RW(r)	0.96***	1.00	0.21***	0.76***	0.28***	0.14***	0.31***
RWD/H (r)	0.20***	0.21***	1.00	0.16***	0.06	0.03	0.06
DOM(r)	0.79***	0.76***	0.16***	1.00	0.37***	0.18***	0.41***
CP(r)	0.29***	0.28***	0.06	0.37***	1.00	0.50***	0.89***
SP(r)	0.14**	0.14***	0.03	0.18***	0.50***	1.00	0.44***
StOI(r)	0.32***	0.31***	0.06	0.41***	0.89***	0.44***	1.00
Panel C. Correlation with the Impact of the Covid-19 Pandemic							
SD(r)	0.12*	0.12**	0.59***	0.09	0.03	0.02	0.04
dpoS(r)	0.74***	0.77***	0.27***	0.58***	0.21***	0.11*	0.24***
SoRM(r)	0.93***	0.97***	0.21***	0.74***	0.27***	0.14**	0.30***
ERM(r)	0.69***	0.72***	0.29***	0.54***	0.20***	0.10	0.22***
RWA(r)	0.61***	0.56***	0.12**	0.78***	0.47***	0.24***	0.53***
Others (r)	0.49***	0.47***	0.10	0.62***	0.60***	0.30***	0.67***
Note: SPA = Stopping Production Activities; RW = Reduce Workers; RWD/H = Reducing Working Days/Hours; DOM = Doing Online Marketing; CP = Changing Products; ISP = Industrial Switch Products; StOI = Switch to Other Industries.							

All of these strategies are significant in relation to all the impacts caused by the pandemic. This shows the complexity of the problems experienced by tourism SMEs during the pandemic. As a result, substantially, these impacts and strategies can affect their business continuity.

*D. Expected/Needed Policy for*

Various literatures have highlighted the important role of government policies or assistance for the survival of SMEs during a pandemic (for example,[9];[17];[10];[11]. Policies or assistance needed by SMEs can be in the form of delaying credit payments (DiLP), tax payment delays/discounts (TPD/D), additional capital (AC), ease of credit administration (EoLA), reduction of electricity bills (EBR), relaxation of social restrictions ( RoSR), and others. The results of our study show that the majority of tourism SMEs (91.00%) expect policies/assistance for their capital, 49.36% need assistance in reducing electricity bills, 32.86% expect relaxation of social restrictions, and 26.92% expect policies that can facilitate credit administration. Meanwhile, 16.45% also expect tax stimulus, 13.61% credit stimulus, and 4.00% other policies/assistance. The specifics of this can be seen in Table 4, Panel A.

	inLP	TPD/D	air conditioning	EoLA	EBR	RoSR	Others
Panel A. Statistics							
Total (%)	13.61	16.45	91.00	26.92	49.36	32.86	4.00
Panel B. Correlation between Policies/Required Assistance							
inLP	1.00	0.89***	0.12**	0.66***	0.40***	0.57***	0.52***
TPD/D	0.89***	1.00	0.14**	0.74***	0.45***	0.64***	0.46***
air conditioning	0.12**	0.14**	1.00	0.19***	0.31***	0.22***	0.06
EoLA	0.66***	0.74***	0.19***	1.00	0.62***	0.87***	0.34***
EBR	0.40***	0.45***	0.31***	0.62***	1.00	0.71***	0.21***
RoSR	0.57***	0.64***	0.22***	0.87***	0.71***	1.00	0.29***
Others	0.52***	0.46***	0.06	0.34***	0.21***	0.29***	1.00
Panel B. Correlation between Strategies							
SPA	0.94***	0.95***	0.13**	0.70***	0.43***	0.60***	0.49***
RW	0.90***	0.99***	0.14**	0.72***	0.45***	0.63***	0.47***
RWD/H	0.19***	0.21***	0.66***	0.28***	0.46***	0.33***	0.10
DOM	0.84***	0.75***	0.10*	0.55***	0.34***	0.48***	0.62***
CP	0.31***	0.27***	0.04	0.20***	0.12**	0.18***	0.60***
SP	0.15**	0.14**	0.02	0.10*	0.06	0.09	0.30***
STOI	0.34***	0.31***	0.04	0.23***	0.14**	0.20***	0.67***
Note: DiLP = Delay in Loan Payment; TPD/D = Tax Payment Delay/Discount; AC = Additional Capital; EoLA = Ease of Loan Administration; EBR = Electricity Bill Reduction; RoSR = Relaxation of Social Restrictions.							

The majority of the policies or assistance needed are related to one another (see Table 4, Panel B). This shows the need for layered policies/assistance, which at the same time indicates the seriousness of the problems experienced by tourism SMEs during the pandemic. On the one hand they need additional capital, but on the other hand they also need stimulus credit, taxes, electricity, etc. Apart from that, almost all of the policies/assistance needed are related to the strategies they use to deal with/reduce the impact of the pandemic (see Table 4, Panel C). This indicates that the strategies they have taken to deal with/reduce the impact of the pandemic will only be useful when there is policy/assistance from the government.

*E. Estimation of Tourism SME Business Continuity in Indonesia*

Specifically, estimates of their business continuity can be seen in Table 5, Panel A. From the table it can be seen that only 18.18% of them are optimistic that their business can last more than three months. Another small portion (5.77%) estimates that their business will only last between one to three months, and only 1.32% are pessimistic about its continuity. Meanwhile, the majority of them (74.73%) cannot predict the continuity of their business. In this case, whether their business will still exist or not

**Table 4.** Business Continuity Estimates

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	<1 month	1-3 Months	>3 Months	Unestimated
Panel A. Statistics				
Total (%)	1.32	5.77	18.18	74.73
Panel B. Correlation between Policy				
inLP	0.31***	0.63***	0.86***	0.23***
TPD/D	0.27***	0.56***	0.96***	0.26***
air conditioning	0.04	0.08	0.14**	0.53***
EoLA	0.20***	0.41***	0.76***	0.35***
EBR	0.12**	0.25***	0.47***	0.57***
RoSR	0.18***	0.36***	0.66***	0.41***
Others	0.60***	0.82***	0.44***	0.12**

There is a significant correlation between the policies/assistance expected and their business continuity estimates (see Table 5, Panel B). Tourism SMEs that are pessimistic or only able to survive under one month and between one and three months, are significant in relation to all the policies needed, except for additional capital. This shows that if the government does not provide credit, tax and electricity stimulus, facilitate credit administration, and relax social restrictions and other related policies, then they are pessimistic they can maintain their business in less than three months. While those who are optimistic can last more than three significant months related to all the expected policies, including policies related to additional capital. Likewise those who are not estimated.

#### IV. Conclusions

Based on our previous findings, it can be concluded four things. First, the Covid-19 pandemic has had a broad impact on tourism SMEs, including reduced demand/sales, delays in payment for sales, scarcity and high cost of raw materials, and reduced worker attendance. The decline in demand/sales was the biggest impact experienced by the majority of tourism SMEs, which was triggered by changes in consumer behavior due to social restrictions. Second, to deal with or reduce the widespread impact of the pandemic, tourism SMEs are using various strategies, including stopping production activities, reducing workers, reducing working days/hours, conducting online marketing, changing products, switching to cross-industry products, and switching business to industry. other. The strategies taken tend to be related to one another, which shows the complexity of the problems experienced by tourism SMEs during the pandemic. Third, policies or assistance that are expected to support the strategies they use to maintain the continuity of their business include stimulus loans, taxes and electricity bills. Apart from that, ease of loan administration, additional capital, relaxation of social restrictions, and other related policies also have a strategic role in maintaining their continuity. These policies also tend to be needed simultaneously, which shows the seriousness of the problems experienced by tourism SMEs during the pandemic. Fourth, without any policy from the government,

Based on these findings, the government at all levels, especially at the central level, is expected to be able to fulfill all the policies needed by SMEs after the pandemic, including by extending credit stimulus and interest subsidies, tax and electricity stimulus, ease of credit administration, capital injections, and implementation of a "new life". normal" to remove social restrictions. In addition, the government must also create effective crisis scenarios to deal with future pandemics, including literacy on risk management for SMEs. Meanwhile, SMEs themselves are expected to increase creativity and innovation in all aspects of their business, including marketing, production, finance, human resources, and organizational.

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