



## Rural Poverty in Indonesia: Insights from *Maqashid Syariah* and Key Determinants

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### Abstract:

Rural poverty remains a major development challenge in Indonesia because it is closely associated with limited access to economic resources, infrastructure, public services, and human development opportunities. This study aims to analyze the determinants of rural poverty in Indonesia from the perspective of *maqashid sharia*. Using panel data regression, this research examines the effects of village funds, village spending, the Village Development Index (VDI), the Islamic Human Development Index (IHDI), social capital, and economic growth on rural poverty. The model selection results indicate that the Fixed Effects Model (FEM) is the most appropriate estimation model. The findings show that village funds and IHDI have a positive and significant effect on rural poverty, while village spending, VDI, and economic growth have a negative and significant effect. Social capital, however, does not have a significant effect on rural poverty. These results suggest that rural poverty alleviation requires not only fiscal transfers, but also effective public spending, stronger village development, inclusive economic growth, and more substantive implementation of welfare-oriented policies in line with the principles of *maqashid sharia*. This study contributes to the rural poverty literature by offering a more comprehensive model that integrates economic, developmental, and Islamic welfare dimensions in the Indonesian context.

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## INTRODUCTION

Poverty continues to be a global problem faced by many countries. Therefore, every country pays close attention to poverty. People living in poverty face numerous challenges and tend to have a lower quality of life (Adeyeye et al., 2023). In general, Islam is quite sensitive to poverty. Islam views poverty as a problem caused by the failure to fulfill basic needs in general. As stated in the Qur'an (QS. Al-Baqarah: 233 and At-Talaq: 6) and the hadith of the Prophet Muhammad SAW (narrated by Ibn Majah), food, clothing, and shelter are basic human needs that must be met to prevent destruction and alleviate poverty.

In Indonesia, poverty has persisted for a long time despite numerous efforts to address it. In 2021, Indonesia had a population of 273.8 million, with more than 9% living below the poverty line. The Gini ratio also indicates that income inequality remains high. In addition, vulnerability to poverty is high, which could increase the number of newly

poor households. The high poverty rate in Indonesia makes poverty alleviation a top priority in development.

Poverty alleviation strategies in Indonesia have been implemented since the Old Order through the Eight-Year National Development Plan (Penasbede) and continued during the New Order with the Five-Year Development Plan (Repelita). A pro-poor, pro-job, and pro-growth approach has been applied, including social assistance, basic needs subsidies, job creation, and economic growth initiatives to expand employment opportunities. This policy also includes strengthening family economies, providing business assistance, improving the quality of small businesses, and implementing social protection initiatives, including the Prosperous Family Savings Program, the Indonesia Smart Program, and the Indonesia Health Program. However, these efforts still face gaps, so poverty has not been completely resolved.

The complex and difficult-to-solve poverty problem, particularly at the provincial, district, and city levels, negatively impacts the regional economy. Rural areas in Indonesia have a higher concentration of poor people compared to urban areas. In 2021, poverty affected 14.64 million people in rural areas and 11.86 million in urban areas. The percentage of poor people was higher outside Java (in Papua, West Papua, and East Nusa Tenggara), while the majority of poor rural people were concentrated in Java and Sumatra. Poverty in Indonesia is more prevalent in rural areas (Headey et al., 2022). Because the majority of the poor population in Indonesia still lives in rural areas, the problem of rural poverty remains a source of great concern.

High levels of rural poverty can lead to inequality and backwardness, thereby worsening development challenges. Therefore, rural development is a fundamental aspect of national development. Development must begin at the village level to build a strong local economy that can support the national economy. Law No. 6 of 2014 on Villages emphasizes that rural development is a national development priority. Since the enactment of the Village Law, significant levels of poverty and disparities in rural development have continued to persist.

Several studies have been conducted on poverty in Indonesia, with a particular emphasis on its economic aspects (Isa et al., 2023). The findings of this study indicate that various factors contribute to poverty in Indonesia, including village funds, the Human Development Index (HDI), population growth, unemployment, the Islamic Human Development Index, labor absorption, and Zakat, Infak, and Sedekah (ZIS). However, whether these factors also influence poverty in rural areas has not been addressed in this study. Previous studies on rural poverty have also been conducted (Guo et al., 2022; Sun et al., 2022). However, an integrated, comprehensive conceptualization of the factors influencing rural poverty has not been found in previous studies. Therefore, further research is needed to identify the variables that influence rural poverty in Indonesia.

The research gaps identified across several previous studies provide the basis for the three main motivations of this study. First, an in-depth study of the factors driving rural poverty is needed, as rural areas have higher poverty rates. Second, to overcome the limitations of existing research on rural poverty in Indonesia. Third, to develop a new model related to the factors influencing rural poverty alleviation using more comprehensive variables. Therefore, this study aims to analyze the variables influencing

rural poverty in Indonesia. These variables include village funds, village spending, the Village Development Index (VDI), the Islamic Human Development Index (IHDI), social capital, and economic growth. This study contributes by offering an empirical model that enriches the discourse on rural poverty alleviation in Indonesia and provides policymakers with practical insights for designing more targeted and sustainable village-based development strategies.

## RESEARCH METHOD

This study is quantitative and uses secondary panel data. The research population comprises all 38 provinces in Indonesia; however, data limitations led the researchers to select 33 provinces, which they consider sufficiently representative of the study area. The research sample was selected using a purposive sampling method. Data from 33 selected provinces covering the years 2018–2022 were used, obtained through documentation techniques from publications by the Central Statistics Agency, the Ministry of Villages, Development of Disadvantaged Regions, and other relevant sources related to the research.

Poverty is a condition in which a person cannot meet their basic needs and improve their quality of life. Islam has a different perspective on understanding poverty. In Islam, poverty is divided into two categories, namely the destitute. Destitute refers to individuals who are physically or materially unable to meet their needs. While people with low incomes can work, their income is insufficient. According to Imam Syafi'i and Hambali, the condition of the destitute is more concerning than that of the poor.

Poverty is a test and a challenge that requires the right strategy to overcome. The issue of poverty alleviation aligns with the principle of maqashid sharia, which teaches Muslims to protect property (hifz al-mal). Protection of this property brings goodness or maslahah, which is included in the category of maslahah al-daruriyyah, which is one of the main principles in Islamic law (Azlinda et al., 2024). Poverty alleviation efforts require active involvement from the central and local governments. One effective step in reducing poverty rates in rural areas is the allocation of village fund transfers, which, since its implementation, has had a positive impact on the welfare of rural communities (Ajija et al., 2022; Rammohan & Tohari, 2023).

### ***H1 = Village fund transfers affect the reduction of rural poverty in Indonesia***

Village fund transfers have become an additional source of income for villages. Village spending, which is part of central government spending, aims to reduce poverty rates. However, research specifically examining the impact of village spending on poverty reduction remains limited. Some relevant studies, such as those conducted by Elshahawany & Elazhary (2023) dan Wang et al. (2023), showed a significant relationship between government spending allocation and poverty alleviation at the regional level.

### ***H2 = Village spending influences the reduction of rural poverty in Indonesia***

The Village Development Index (VDI) is used as an indicator of village development in Indonesia. A high VDI value reflects the region's ability to manage resources to improve welfare and quality of life and to reduce poverty. Research by Sunaryono (2021) and Naufal et al. (2023) revealed that the Village Development Index (VDI) has a significant effect on poverty alleviation.

### ***H3 = Village Development Index influences the reduction of rural poverty in Indonesia***

Development achievements need to be accompanied by an increase in the Islamic Human Development Index (I-HDI). The application of I-HDI as a human development strategy is highly relevant to poverty alleviation. Research conducted by Isa, Kareem, et al. (2023) and Isa, Ismail, et al. (2023) found that I-HDI negatively affects poverty rates.

### ***H4 = The Islamic Human Development Index influences the reduction of rural poverty in Indonesia***

Social capital includes economic resources obtained through social networks. According to Pham & Mukhopadhaya (2022), the value of cooperation as social capital underlies the formation of cooperatives, which Hatta considers a modern form of cooperation. Cooperatives are also seen as a formal form of cooperation that aims to improve community welfare. Cooperatives, as a representation of social capital, have been shown to have a significant influence on poverty alleviation, as found in the research of Shen et al. (2022), Gava et al. (2021), and Qin et al. (2021).

### ***H5 = Social capital influences the reduction of rural poverty in Indonesia***

Poverty alleviation efforts are highly dependent on economic growth. Growth that increases income equality, reduces poverty, and lowers unemployment rates reflects the quality of economic growth. Economic growth has a significant influence on poverty alleviation (Balasubramanian et al., 2023; Hasan, 2021; Zeng et al., 2021).

### ***H6 = Economic growth affects the decline in rural poverty in Indonesia***

Economic growth in this research is assessed using the Gross Regional Domestic Product (GRDP), while the number of active cooperatives represents social capital. This study employs a panel data regression model for data analysis, using Eviews 10 econometric software. The equation model for panel data in this study is as follows:

$$RP_{it} = \alpha + \beta_1 VF_{it} + \beta_2 VE_{it} + \beta_3 DVI_{it} + \beta_4 IHDI_{it} + \beta_5 SC_{it} + \beta_6 EG_{it} + e_{it} \dots$$

Description:

Rural Poverty (RP), Village Fund (VF), Village Expenditure (VE), Village Development Index (DVI), Islamic Human Development Index (IHDI), Social Capital (SC), Economic Growth (EG), i-th entity (i), t-th period (t), Constant ( $\alpha$ ), Coefficient ( $\beta$ ), error term (e).

## **RESULT AND DISCUSSION**

### **Results**

#### **Model Selection**

Selecting the appropriate panel data regression model is a crucial step in panel data analysis because it determines the estimation approach that best fits the characteristics of the data. In this study, three alternative models were considered, namely the Pooled Ordinary Least Squares (POLS), Fixed Effects Model (FEM), and Random Effects Model (REM). To identify the most appropriate model, the Chow test and Hausman test were employed.

As presented in Table 1, the Chow test shows that the probability value of the cross-section chi-square is 0.0000, which is lower than the significance level of 0.05. This result indicates that the Fixed Effects Model is more appropriate than the Pooled Ordinary Least Squares model. Furthermore, Table 1 also reports the result of the Hausman test, in which the probability value of the cross-section random is 0.0000, which is also below 0.05. This finding confirms that the Fixed Effects Model is more suitable than the Random Effects Model. Since both the Chow test and Hausman test consistently support the Fixed Effects Model, the Lagrange Multiplier test was not required. Therefore, the Fixed Effects Model was selected as the best model for estimating the determinants of rural poverty in Indonesia.

**Table 1. Chow Test and Hausman Test Results**

Test	Indicator	Statistic	d.f.	Prob.
Chow Test	Cross-section F	304.548665	(32,126)	0.0000
Chow Test	Cross-section Chi-square	719.586614	32	0.0000
Hausman Test	Cross-section random	96.796036	6	0.0000

*Source: Processed data, 2024.*

Based on the estimation results, the regression equation of the selected Fixed Effects Model is as follows:

$$RP = 1419.192 + 1.25E-08 FV - 14.947 \text{ Log(VE)} - 33.764 \text{ Log(DVI)} + 26.992 \text{ Log(IHDI)} - 3.362 \text{ Log(SC)} - 64.488 \text{ Log(EG)} + e$$

where RP represents rural poverty, FV denotes village fund transfers, VE refers to village expenditure, DVI is the Village Development Index, IHDI is the Islamic Human Development Index, SC represents social capital, and EG denotes economic growth.

The estimated constant of 1419.192 indicates that when all independent variables are assumed to be constant, rural poverty is estimated at 1,419.192 thousand people. The coefficient of village fund transfers is positive, suggesting that an increase in village fund transfers is associated with an increase in rural poverty. Meanwhile, village expenditure, the Village Development Index, social capital, and economic growth have negative coefficients, indicating that increases in these variables tend to reduce rural poverty. In contrast, the Islamic Human Development Index shows a positive coefficient, implying that higher IHDI is associated with higher rural poverty. Because several explanatory variables are expressed in logarithmic form, their coefficients should be interpreted as semi-log effects; thus, a 1% increase in a logged independent variable changes rural poverty by approximately 0.01 times its coefficient, *ceteris paribus*.

### Classical Assumption Tests

Before conducting further interpretation of the regression model, several classical assumption tests were performed to ensure that the estimated model met the basic econometric requirements. These tests included normality, multicollinearity, heteroscedasticity, and autocorrelation tests.

The normality test was conducted using the Jarque–Bera statistic. The probability value obtained was 0.667, which is greater than 0.05, indicating that the residuals are normally distributed. This result suggests that the regression model satisfies the normality assumption.

The multicollinearity test was assessed using the Variance Inflation Factor (VIF). The results show that the VIF values of village fund transfers, village expenditure, the Village Development Index, the Islamic Human Development Index, social capital, and economic growth are all below 10. This indicates that there is no serious multicollinearity among the independent variables in the model.

The heteroscedasticity test was carried out using the White test. The test results show that the probability value is greater than the significance level of 0.05, indicating the absence of heteroscedasticity. Therefore, the variance of the residuals can be considered constant across observations.

The autocorrelation test was conducted using the Durbin–Watson statistic. As shown in Table 2, the Durbin–Watson value is 1.866877, which indicates that the model does not suffer from serious autocorrelation. Taken together, the diagnostic test results suggest that the regression model is statistically acceptable for further analysis.

### Simultaneous Test, Partial Test, and Coefficient of Determination

The simultaneous significance of the independent variables was examined using the F-test. As reported in Table 2, the F-statistic is 2429.275 with a probability value of 0.000000, which is lower than 0.05. This result indicates that village fund transfers, village expenditure, the Village Development Index, the Islamic Human Development Index, social capital, and economic growth jointly have a significant effect on rural poverty. In other words, the independent variables, taken together, are able to explain variations in rural poverty in Indonesia.

Statistic	Value
R-squared	0.998637
Adjusted R-squared	0.998226
S.E. of regression	27.66792
F-statistic	2429.275
Prob(F-statistic)	0.000000
Mean dependent variable	829.1507
S.D. dependent variable	581.2933
Sum squared residuals	96454.75
Durbin–Watson statistic	1.866877

Source: Processed data, 2024.

In addition to the simultaneous test, the partial effect of each independent variable was analyzed using the t-test. The detailed results are presented in Table 3. The village fund transfer variable has a positive and significant effect on rural poverty, as indicated by a probability value of 0.0075, which is lower than 0.05. This finding implies that an increase in village fund transfers is associated with an increase in rural poverty. Village expenditure has a negative and significant effect on rural poverty, with a probability value of 0.0412. This means that higher village expenditure tends to reduce rural poverty.

As further shown in Table 3, the Village Development Index also has a negative and significant effect on rural poverty, with a probability value of 0.0276. This indicates that improvements in village development are associated with a reduction in rural poverty. By contrast, the Islamic Human Development Index has a positive and significant effect on rural poverty, with a probability value of 0.0006. This suggests that increases in

IHDI are associated with higher rural poverty. Meanwhile, social capital has a negative but statistically insignificant effect on rural poverty, as reflected by a probability value of 0.7240. Therefore, social capital cannot be considered a significant determinant of rural poverty in this model. Economic growth, on the other hand, has a negative and significant effect on rural poverty, with a probability value of 0.0000, indicating that higher economic growth contributes to reducing rural poverty.

**Table 3. t-Test Results**

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Conclusion
C	1419.192	201.5775	7.040427	0.0000	-
FV	1.25E-08	4.60E-09	2.716428	0.0075	Significant
LOG(VE)	-14.94702	7.245765	-2.062862	0.0412	Significant
LOG(DVI)	-33.76413	15.14974	-2.228693	0.0276	Significant
LOG(IHDI)	26.99159	7.692581	3.508782	0.0006	Significant
LOG(SC)	-3.362210	9.499188	-0.353947	0.7240	Not significant
LOG(EG)	-64.48777	14.75101	-4.371752	0.0000	Significant

Source: Processed data, 2024.

The explanatory power of the model can be evaluated using the coefficient of determination. As presented in Table 2, the adjusted R-squared value is 0.998226, indicating that approximately 99.82% of the variation in rural poverty can be explained by village fund transfers, village expenditure, the Village Development Index, the Islamic Human Development Index, social capital, and economic growth. This result suggests that the model has very high explanatory power, particularly after accounting for the cross-sectional fixed effects included in the estimation. The remaining 0.18% of the variation in rural poverty is explained by other factors outside the model.

To provide a more substantive interpretation, the coefficients of the logged variables imply semi-log relationships. A 1% increase in village expenditure is associated with a decrease in rural poverty of approximately 0.149 thousand people, while a 1% increase in the Village Development Index is associated with a decrease of about 0.338 thousand people. Similarly, a 1% increase in economic growth is associated with a decrease in rural poverty of approximately 0.645 thousand people. In contrast, a 1% increase in the Islamic Human Development Index is associated with an increase in rural poverty of approximately 0.270 thousand people. Although social capital has a negative coefficient, its effect is not statistically significant, so it should be interpreted cautiously.

## Discussion

Rural poverty in Indonesia should be understood not only as an economic problem but also as a multidimensional deprivation that limits access to basic needs, productive resources, public services, and social opportunities. From the perspective of *maqashid sharia*, poverty reflects the failure to protect essential dimensions of human welfare, especially the preservation of life (*hifz al-nafs*), intellect (*hifz al-'aql*), and wealth (*hifz al-mal*). In rural areas, this condition becomes more severe because communities often face structural disadvantages, including weak infrastructure, limited market access, low educational attainment, and restricted employment opportunities. Therefore, rural poverty alleviation should not be limited to income improvement, but must also include broader efforts to strengthen social justice, human dignity, and sustainable welfare in line with the objectives of Islamic law (Javed et al., 2022; Saniff & Shreeza, 2021).

The findings show that village funds have a positive and significant effect on rural poverty, suggesting that greater transfers have not automatically reduced poverty in rural Indonesia. This result suggests that the presence of fiscal transfers alone is insufficient if the funds are not translated into effective and targeted programs. Although village funds are normatively aligned with Islamic principles of justice, redistribution, and welfare, their practical implementation may still be constrained by weak governance capacity, poor planning, mistargeting, and low administrative quality at the village level. This finding supports previous studies showing that village fund transfers may fail to generate a significant poverty-reducing effect when village institutions are not sufficiently prepared to manage development resources effectively (Azmi et al., 2020; Imam & Januari, 2022; Hariyanto et al., 2023).

This positive association between village funds and rural poverty can also be understood in terms of implementation limitations and institutional capacity in rural areas. Low human resource quality among village officials, weak supervision, underdeveloped infrastructure, and limited accessibility reduce the developmental impact of village funds and may even weaken their effectiveness in supporting poor households. In addition, the refocusing of public budgets during the pandemic likely shifted village spending priorities toward short-term emergency responses rather than long-term productive programs. From the *maqashid sharia* perspective, such inefficiency is problematic because public resources are expected to generate *maslahah* and protect collective welfare through accountable and trustworthy governance. When fund management is poorly aligned with community needs, the redistributive purpose of village funds becomes less effective at reducing rural deprivation (Zhang et al., 2021; Kamaludin & Qibthiyyah, 2022).

In contrast, village spending has a negative, significant effect on rural poverty, suggesting that higher village expenditure contributes to poverty reduction. This finding confirms that what matters is not merely the transfer of funds to villages, but how those resources are actually spent. In Islamic economics, public expenditure is expected to serve the public interest, fulfill basic needs, and reduce inequality. Productive village spending on infrastructure, education, health, social protection, and empowerment programs can directly strengthen rural households' welfare capacity. This result is consistent with previous studies showing that government and village expenditures, particularly in human development and empowerment sectors, play an important role in alleviating poverty and improving rural welfare (Wan et al., 2021; Zeng et al., 2021; Elshahawany & Elazhary, 2023; Pradana & Suryantoro, 2024).

The Village Development Index (VDI) is also found to have a negative, significant effect on rural poverty, indicating that better village development performance is associated with lower poverty levels. This finding is theoretically strong because the VDI captures social, economic, and ecological resilience, all of which are closely related to the broader goals of *maqashid sharia*. Social resilience supports the protection of life and family welfare; economic resilience supports the protection of wealth through fair opportunity and productivity; and ecological resilience reflects the Islamic principle of balance and responsible stewardship of natural resources (Putri et al., 2023). The result therefore indicates that village development is not only a technical-administrative target

but also a substantive pathway for improving welfare and reducing structural poverty in rural areas (Rauhut & Humer, 2020; Naufal et al., 2023; Sunaryono, 2021).

The negative relationship between VDI and rural poverty further implies that villages with stronger institutional, infrastructural, and socio-economic capacities are better able to generate inclusive welfare outcomes. Villages with better access to roads, public services, health facilities, education, and trade opportunities tend to have higher development status and greater poverty-reduction capacity. This supports the idea that rural poverty is deeply linked to spatial inequality and uneven development. The result also confirms that accelerating development in lower-status and underdeveloped villages remains crucial for narrowing the rural poverty gap (Samiun, 2022; Lobwaer et al., 2024).

A more complex finding emerges from the Islamic Human Development Index (IHDI), which shows a positive and significant effect on rural poverty. Normatively, the IHDI is expected to reduce poverty because it reflects a holistic conception of development rooted in *maqashid sharia*, integrating material and spiritual dimensions of welfare. However, the empirical result suggests that improvements in IHDI have not yet translated into effective poverty reduction in rural Indonesia. This may indicate that the progress reflected in the IHDI is still uneven, moderate in scale, or insufficiently connected to actual improvements in productive capacity, employment access, and rural economic opportunity. In other words, human development gains may exist statistically, but they may not yet be strong enough to break the structural cycle of poverty in many rural areas (Hasbi et al., 2023).

This result may also reflect the gap between normative development goals and the practical realities of rural communities. Limited infrastructure, weak connectivity, unequal access to education and health services, and dependence on low-productivity agriculture can constrain the poverty-reducing effect of human development. Rural households may experience some improvements in welfare indicators without achieving meaningful economic mobility. This condition aligns with poverty theories emphasizing the vicious circle of poverty, in which limited capability and restricted opportunity reinforce each other over time. Therefore, the positive coefficient of IHDI should not be interpreted as evidence against Islamic human development itself, but rather as a signal that its implementation and transmission into economic welfare remain incomplete, especially in disadvantaged rural regions (Long et al., 2022).

The social capital variable is found to have no significant effect on rural poverty, indicating that the presence of social networks, cooperation, and cooperative institutions has not yet become a decisive factor in reducing poverty. In principle, this result appears paradoxical because social capital is strongly aligned with Islamic values such as *ta'awun*, *ukhuwah*, trust, solidarity, and collective responsibility. However, the insignificance of social capital may reflect the fact that social relationships alone are not sufficient when local institutions are weak, cooperative participation is low, governance quality is poor, and community organizations lack managerial capacity and market adaptation. Thus, while social capital remains normatively important, its effectiveness as a poverty alleviation mechanism depends heavily on institutional quality and organizational performance (Estragó, 2023; Fiore et al., 2020; Hanafi et al., 2021; Solomon, 2023).

Economic growth has a negative and significant effect on rural poverty, suggesting that higher regional economic growth reduces rural poverty in Indonesia. The findings of this study imply that rural poverty alleviation requires an integrated strategy that combines effective village spending, accelerated village development, inclusive economic growth, stronger governance of village funds, and more grounded implementation of human development policies. The main implication of this research is that rural poverty policy should move beyond a narrow fiscal approach toward a comprehensive development model based on institutional effectiveness, social justice, and the substantive realization of *maqashid sharia* in village governance and rural transformation.

## CONCLUSION

Rural poverty in Indonesia is influenced by a combination of fiscal, developmental, socio-institutional, and economic factors. Empirical findings indicate that village funds have a positive and significant effect on rural poverty, suggesting that fiscal transfers alone are insufficient to reduce poverty at the village level. Conversely, village expenditure, the Village Development Index (VAT), and economic growth have a negative and significant effect, suggesting that productive public spending, stronger village development performance, and inclusive economic expansion play a crucial role in reducing rural poverty. From a sharia perspective, these findings confirm that rural poverty alleviation requires not only financial support but also effective governance, equitable development, institutional strengthening, and welfare-oriented policies that comprehensively protect life, intellect, and wealth.

This study is limited by its relatively narrow measurement of social capital, which may not fully capture the broader dimensions of trust, networks, and collective action in rural communities. Therefore, future studies are recommended to incorporate broader social capital indicators, include additional explanatory variables related to governance quality and institutional effectiveness, and combine quantitative and qualitative approaches to provide a more comprehensive understanding of rural poverty alleviation in Indonesia.

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