The rise to prominence of good governance as a key development concern has been marked by an increasing interest in measurement and the production of a huge range of governance indicators. When used carefully such indicators provide a valuable source of information on governance conditions and trends. However, when used carelessly they can misinform and mislead. The purpose of this brief is to make sense of the different types of governance indicator and how they are used and misused. It warns against the commission of ‘seven deadly sins’ representing the most common pitfalls. The paper puts forward guidelines to ensure a more careful use and interpretation of governance indicators, and highlights the need for providers of indicators to be subject to greater transparency, scrutiny, evaluation and peer review. From the perspective of political economy analysis the challenge is to make the indicators more relevant to understanding the underlying political processes that are the key drivers of better governance.

The term governance indicator refers to an eclectic set of measures covering the wide range governance topics. The indicators can be distinguished according to their source and objectivity, level of impact, comparability, degree of aggregation and “actionability” (table 1).

### Table 1 - Types and examples of governance indicators

<table>
<thead>
<tr>
<th>Source and objectivity:</th>
<th>fact-based</th>
<th>expert judgements</th>
<th>surveys of public perception</th>
</tr>
</thead>
<tbody>
<tr>
<td>number of court cases delayed by 6 months</td>
<td>legal professionals’ ratings of judicial independence in their country</td>
<td>% of citizens expressing confidence in the performance and independence of the judiciary</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Level of impact measured:</th>
<th>input</th>
<th>process</th>
<th>output</th>
<th>outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>number of ministries covered by civil service reform plan</td>
<td>number of civil servants subject to annual performance assessment</td>
<td>number of civil servants signing new pay and conditions agreement</td>
<td>reduced administrative costs in public service delivery</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Comparability</th>
<th>cross-country comparability</th>
<th>comparability over time</th>
<th>country-specific indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Governance Indicators (213 countries)</td>
<td>Freedom House Civil Liberties Index (1990-2010)</td>
<td>Tax revenues at district and Upazila level (Bangladesh)</td>
<td></td>
</tr>
</tbody>
</table>
Governance indicators may also be categorised according to their different users and uses. This briefing is primarily oriented towards the needs of development agencies and practitioners. However, governance indicators are also widely used by developing country governments, researchers, advocacy organisations and the media, as well as investors and companies concerned with political risk management. As indicated in table 2 below there are major differences in the requirements of the various types of user, and an indicator that is fit for one purpose may not be fit for another. It is vital to be aware of these differences, and the practical and political needs that motivate the production of different types of indicator.

### Table 2 - Users and uses of governance indicators

<table>
<thead>
<tr>
<th>Users and uses</th>
<th>required features of indicators</th>
<th>examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1) Development agencies and practitioners</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1 Following governance trends in a country, identifying broad priorities for country strategies</td>
<td>Repeat measurement over time, single and aggregate measures</td>
<td>World Governance Indicators</td>
</tr>
<tr>
<td>1.2 Using indicators to inform programme design</td>
<td>Actionable indicators linked to the performance of public policies and institutions, and pointing to required improvements</td>
<td>Public Expenditure and Financial Accountability (PEFA) Assessment</td>
</tr>
<tr>
<td>1.3 Monitoring programme performance</td>
<td>Specificity to the programme’s intended purpose and results</td>
<td>Programme logframes</td>
</tr>
<tr>
<td>1.4 Allocating aid between countries according to governance performance (selectivity)</td>
<td>Inter-country comparability. Robust, impartial and defensible indicators</td>
<td>Millennium Challenge Account country scorecards</td>
</tr>
<tr>
<td></td>
<td></td>
<td>World Bank CPIA scores</td>
</tr>
<tr>
<td></td>
<td></td>
<td>EC Governance Incentive Tranche</td>
</tr>
<tr>
<td>1.5 Using indicators as a tool for donor accountability, managing for results and demonstrating value for money to taxpayers</td>
<td>Specificity to intended results of aid programmes. Attribution of results to aid spending ideally through the use of Randomised Controlled Trials (RCTs). Understandable measures suited to public communication</td>
<td>DFID Governance Portfolio Review</td>
</tr>
<tr>
<td>1.6 Using indicators to inform policy dialogue with government</td>
<td>Selection of indicators based on issues of joint concern to donors and government. Robust methodology required. Indicators must be contestable and verifiable</td>
<td>Performance Assessment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Frameworks for Budget Support</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rwanda Joint Governance Assessment</td>
</tr>
</tbody>
</table>
## 2 Governments and CSOs in developing countries

2.1 Monitoring performance in relation to constitutional rights, service delivery and public sector reform

- Specificity to the policy and institutional context of the country
- PRSP monitoring frameworks

2.2 Managing image internationally with respect to investors, donors and human rights organisations

## 3 Researchers

3.1 Understanding causal processes explaining governance and development trends

- Cross country comparability and long time series to identify explanatory variables using econometric techniques
- Suitability for use in randomised Controlled Trials to test the effect of specific governance interventions
- POLITY IV dataset
- Quality of Governance Dataset
- World Freedom Atlas
- 41 examples of governance related RCTs catalogued in Moehler, 2010

## 4 International advocacy and human rights organisations

4.1 Country rankings, naming and shaming exercises.

- Ease of communication
- Cross-country comparability
- Specificity to particular human rights abuses and constraints on freedom
- Transparency International Corruption Perceptions Index
- Press Freedom Index

## 5 Media

5.1 Supporting evidence for journalism

- Credibility of sources, ease of interpretation and communication
- Transparency International Corruption Perceptions Index

## 6 International investors

6.1 Assessing political risk

- Cross-country comparability
- International Country Risk Guide (ICRG) ratings

6.2 Understanding the costs of doing business in different countries

- Cross-country comparability
- Disaggregation by different investment climate constraints
- IFC Doing Business Survey
How are governance indicators used?

The number of governance indicators and their country coverage has increased rapidly. A recent count identified 400 separate governance indicators (Amdt and Oman, 2008). This data is mostly freely available on the web, and a number of sites, such as IADB’s datagob, the UNDP Governance Assessment Portal, Metagora and the World Bank’s agidata, compile the data or provide links to the main sources. Such web tools offer new possibilities for users to get a rapid sense of governance conditions and trends. While this does not substitute for in-depth country analysis, it does offer a useful starting point, providing an overview of governance conditions at a glance and helping to identify critical issues for further enquiry.

Referring back to table 2, the increased availability of governance indicators has benefitted all six groups of users, but with some important variations. Development agencies are major producers and consumers of governance indicators. Governance indicators are routinely referred to in country strategy documents (1.1), and are comprehensively featured in supporting analyses, such as DFID’s Country Governance Analysis and the EC’s Governance Profiles. There is also evidence of the increasing use of more Actionable Governance Indicators in programme design and monitoring (1.2 and 1.3). There are several notable examples of the use of governance indicators to determine aid allocation, in relation to the Millennium Challenge Account Country Scorecard, the World Bank’s Country Policy and Institutional Assessment, and the European Commission’s Governance Incentive Tranche (1.4). Such practices aim to reward good performers (or those committing to reform in the case of the Governance Incentive Tranche), but raise questions about the robustness of the indicators and whether they create meaningful incentives (Kaufmann and Kraay, 2002). There has been rather less use of governance indicators as a tool for donor accountability, managing for results and demonstrating value for money to taxpayers (1.5). This is probably because of the difficulty of establishing attribution and communicating complex indicators to the public at large. However, DFID has recently collected and analysed such evidence in a governance portfolio review, and is further exploring the use of governance indicators to measure value for money in aid spending. There is increasing interest in the use of Randomised Controlled Trials to provide systematic and statistically robust evidence on the effects of specific governance interventions (Moehler, 2010). Governance indicators are also commonly used as a tool for policy dialogue with government (1.5), for example in the context of multi stakeholder governance assessments, such as the Rwanda Joint Governance Assessment and the Bangladesh Multi-donor Country Governance Assessment. There has also been a notable trend towards the inclusion of governance indicators in budget support performance assessment frameworks, including their use as disbursement triggers.

Governments and civil society organisations in developing countries have been later adopters of governance indicators. However, governance indicators are increasingly presented in the monitoring frameworks for national poverty reduction strategies and reform programmes, usually in the form of more narrowly defined and actionable measures that are geared towards assessing country specific factors rather than enabling international comparison. Recognising the growing power of governance indicators in shaping their image internationally, developing country governments have sometimes responded to published international comparative indicators, or actively sought to improve their international ranking through targeted reform measures.²

Academics and researchers are another important group of user (3.1), as witnessed by the growing body of econometric studies that take advantage of new sources of cross-country and time series data. Such studies typically employ multiple regression analysis to explore the determinants and development consequences of good governance (the most commonly used governance and socio-economic datasets can be explored in the visually engaging World Freedom Atlas). The use of Randomised Controlled Trials is an emerging area of governance research borrowing techniques from health research to test the effects of specific governance interventions (Moehler, 2010). Such experiments depend on the availability of suitable indicators to measure differences between situations where a particular governance intervention has been applied and the counterfactual case where it has not been applied.

International advocacy and human rights organisations have also been enthusiastic providers and users of governance indicators (4.1) spearheading numerous international ranking exercises, including Transparency International’s Corruption Perceptions Index, the Freedom House Freedom in the World scores, the Ibrahim Index and the Bertelsmann Transformation Index. Producers of these measures have come to view such indicators as a key part of their public profile, and a vital instrument to spur public interest and apply pressure on governments. The media’s keen consumption of these easily communicable ratings (5.1) has further increased their importance as an advocacy tool.

International investors are important users of certain types of governance indicators, in particular measures of political risk offered commercially by agencies such as Political Risk Services, The Economist Intelligence Unit and Business Monitor International. Indicators on the costs of doing business (including the impacts of regulatory measures and corruption) are also in strong demand (6.2), as demonstrated by the phenomenal success of the IFC Doing Business Survey, which has become one of the World Bank Group’s most widely circulated and cited publications.
The misuse of governance indicators – avoiding the Seven Deadly Sins

While governance indicators have delivered important benefits, they have also been particularly prone to misuse. This is partly explained by the rapid growth in the availability of indicators, their complexity and bewildering variety, as well as a lack of user experience. However, the danger of misuse also arises from inherent features of governance indicators and the incentives facing their producers and users. When used inappropriately governance indicators can obscure more than they reveal, promote false assumptions about what drives progress in governance and development, and at worst lead to the wrong policy or investment choices.

As a guide to avoiding the most common transgressions, the following paragraphs highlight ‘seven deadly sins’ relating to the misuse and misinterpretation of governance indicators. Guidance is offered on transforming each of these into ‘heavenly virtues’.

1) Placing too much faith in the numbers

The trend towards quantification has led to a tendency to treat governance as an exact science and governance indicators as fully reliable measures. In reality governance indicators are often subject to substantial statistical error and uncertainty (Arndt and Oman, 2006). This fact is generally acknowledged by the organisations producing them, but often ignored by end users. For example, the World Governance Indicators are commonly cited as a source of evidence on governance trends in a particular country. However, great care must be taken in making claims about changes in the indicators from year to year because these are often found to be within the margin of error, and cannot therefore be viewed as a definite trend. Such pitfalls are recognised by the creators of the index, who report that only 35 percent of countries experienced significant changes (at the 90% level) over the decade 1998-2008 in one or more of the six the World Governance Indicators (Kaufmann et al., 2009). Statistical uncertainty and sampling bias are inherent in most types of governance indicator, in particular those derived from survey data and expert judgements. The World Bank’s Doing Business survey has been criticised on the grounds of its reliance on a small number of informants (typically one or two informants per indicator per country), a weakness identified in a recent IEG evaluation (Independent Evaluation Group, 2008).

Good practice: Avoid assuming a false degree of precision, and take full account of the statistical uncertainty inherent in governance indicators and potential sources of bias. Treat sceptically assertions based on small differences in governance indicators unless they clearly exceed stated margins of error.

2) Pushing the indicators beyond their original purpose

Governance indicators have typically been designed with a specific purpose and user in mind. However, they are often used in ways that depart from their original purpose or ignore statistical limitations to the data. For example, Transparency International cautions against the use of its Corruption Perceptions Index to provide evidence of year-on-year trends. However, changes in the rankings are commonly interpreted as an indicator of particular countries performing well or badly in the fight against corruption. In practice changes to the CPI do not provide solid evidence of such performance because they are based on perceptions of corruption rather than the effect of anti-corruption measures, and as a ranking they are influenced by the relative performance of all of the countries included in the index.

Good practice: Take careful account of the purpose for which individual indicators were designed and the statistical limitations on the data.

3) Forgetting the meaning behind the measurement

Governance indicators are commonly cited without adequate explanation of the governance problem being measured and the method of assessment. Such shortcuts may be convenient, but create a danger of reductionism where users come to perceive governance problems as a set of numbers rather than complex processes with inherent measurement difficulties. For example, frequent references are made to Freedom House’s ratings of countries as ‘free’, ‘partly free’ and ‘not free’, but without explaining that this is based on expert judgements relating to two distinct concepts of freedom: political rights and civil liberties, each divided into several sub-categories. The World Governance Indicators are probably the most widely used governance indicators, but it is not widely appreciated that these are composite measures derived from a complex combination of 35 separate sources. The WGI Voice and Accountability measure, for example, aggregates perceptions measures and expert judgements, and includes indicators covering a diverse set of accountability topics including press freedom, budget transparency and political rights. When looking more deeply at the basis of such indicators, serious questions are raised as to what the indicators are actually referring to and whether they capture meaningful aspects of governance. However, the convenience of published indicators and the reputation of organisations producing them have meant that indicators tend to be reproduced in an unquestioning way. There is also a broader concern that producers of indicators have not been insufficiently transparent in explaining methodologies, scoring systems, revealing sources and publishing the disaggregated data that make up their composite measures. The Freedom House and World Governance Indicators referred to here are better than average in this regard, but still fall somewhat short of full transparency.
4) **Falling into normative traps**

The notion of ‘good governance’ embodies normative assumptions about how countries should be governed, often based on models from OECD countries. This normative view of governance is increasingly challenged on the grounds that development has taken place under very different institutional arrangements, and what may appear to be best practice in one setting may not be transferable to another (Centre for the Future State, 2010). The critique is relevant to governance indicators which, when used unquestioningly, can act to reinforce normative assumptions of what constitutes ‘good’ and ‘bad’ performance. In some cases these assumptions are uncontroversial. For example, everyone would agree on the desired direction of change for an indicator such as ‘deaths in police custody’. However, in other cases the assumptions behind many indicators are much more debatable. The observation of political stability may be judged to be a good or bad thing depending on whether the regime in question respects or represses civil liberties and political freedoms. Similarly the World Bank Institute Doing Business indicators dealing with regulatory issues have been roundly criticised (including by an IEG evaluation) for their tendency to view light regulation and weak worker protection as a positive factor irrespective of local conditions.

**Good practice:** Be alert to the normative assumptions behind governance indicators, and actively question whether they are appropriate to the particular context of the country in question.

5) **“Not everything that can be counted counts, and not everything that counts can be counted”**

Einstein’s famous quotation highlights the tendency to place greater value on what is measurable. The problem is particularly relevant to the subject of governance, which covers many problems that are not easily amenable to quantification. For example, in relation to judicial reform it is fairly straightforward to measure the average case backlog, but much more problematic to assess the independence of the judiciary and extent of executive interference. There is thus a danger that the drive towards measuring and demonstrating results will create perverse incentives whereby managerial effort becomes focussed on narrower, more specific and measurable indicators to the neglect of broader and more fundamental problems. This risk is particularly acute at a time of fiscal austerity when development agencies are coming under intense pressure to demonstrate results and value for money. In this context staff and programmes who can deliver clearly identified outputs against specific indicators will be rewarded, whereas those who supply more complicated outcomes will not.

Guarding against this risk requires a balanced approach recognising the value of measurement, but also being aware of its limitations. There are certain types of indicator that are more applicable to the assessment of broader aspects of governance, for example those based on expert ratings and perceptions surveys. However, it must be recognised that perfect measurement will not be possible, and decisions will need to be informed by qualitative and subjective assessment, as well as hard indicators.

**Good practice:** Be prepared to include more subjective indicators based on perceptions surveys and expert judgements to capture less tangible aspects of governance. View qualitative assessment as being at least as important as the quantification of governance indicators.

6) **Tracking symptoms and neglecting causes**

By their nature governance indicators are more useful for describing the governance conditions in a country rather than explaining how these arose and what processes may lead to change. An excessive focus on indicators can lead to a rather superficial type of governance assessment that merely tracks symptoms and does not address root causes. For this reason practitioners of political economy analysis, who are primarily concerned with long term explanations of change, tend to make rather limited use of governance indicators. This is regrettable as there is definitely scope for a productive exchange of ideas that would help to make governance indicators more political economy-relevant and at the same time could make political economy analysis more evidence-based. Ideas for such an approach are explored in the conclusion to this brief.

**Good practice:** Prioritise the development of indicators that are suited to political economy analysis and relevant to explaining the causes of observed patterns of governance.

7) **Assuming causation where there is only correlation**

In calling for greater attention to causal processes, it is at the same time important to guard against dubious claims of causality based on the simplistic use of indicators. In practice it is often difficult to attribute changes in governance indicators to any single driver, particularly where indicators are broadly defined and non-actionable. An example of this problem arises in the
unresolved debate of the relationship between governance and growth. While many studies have demonstrated the strong correlation between levels of income and broad indicators of good governance, it has not been possible to prove which variable causes the other or to discount the possibility that both may be caused by a third group of factors. The debate has descended into a rather sterile exchange about the choice of statistical methods and the quality of the indicators. A more productive approach would be to examine in greater depth the actual mechanisms by which particular governance problems contribute to or undermine economic growth (see the framework developed in Policy Practice Brief 4 on Politics and Growth). Again this would require the use of detailed process-type governance indicators rather than broad measures of the overall quality of governance.

**Good practice:** Take a modest view of the ability of broad governance indicators to demonstrate causality. Place more emphasis on process indicators relevant to understanding causal mechanisms.

**Ways forward**

The seven deadly sins highlight some serious pitfalls in the use of governance indicators. While they do not invalidate the important benefits of governance indicators, they do underscore the need to ensure their more careful use. The good practice recommendations made above should go some way towards enabling a more careful and virtuous use of governance indicators. Several of these are worth highlighting as priorities:

A key requirement for improved quality will be to subject governance indicators to stronger external scrutiny and challenge. In this respect several providers of governance indicators have made important steps to promote transparency, for example the detailed information on methodology and source data that is available on the websites of the World Governance Indicators, the Global Integrity Index and Freedom House. Such practices need to be applied by all providers and taken further to the point of full transparency. Greater transparency should encourage constructive criticism of the indicators and create a sense of stronger accountability on the part of providers. This is already occurring in a rather ad hoc sense, but few providers have been subject to formal evaluation. It would be worth considering putting more systematic arrangements in place to rate the ratings through the greater use of independent evaluations and peer review.

There are a number of promising trends in the evolution of governance indicators that would be worth pursuing further. While broad governance indicators such as the World Governance Indicators have important uses (in particular for cross country comparison), the gains in future are more likely to be derived from more Actionable Governance Indicators offering greater specificity to particular actions and processes intended to bring about improvements in governance. In a similar vein there has been an encouraging trend towards more country-specific measures that reflect individual country contexts and are suited to informing and measuring the progress of country-initiated reform programmes. There has also been an increase in the use of perceptions surveys and opinion polls to assess the more subjective aspects of governance in developing countries (see box below). All of these trends are helping to address gaps in the coverage of governance indicators. However, they do not lessen the value of more traditional measures.

From the perspective of political economy analysis the priority is to encourage the development of governance indicators that are relevant to understanding how good governance comes about in terms of changes in structural factors, institutions and political processes. The box below provides some examples of recently developed governance indicators that are more process-oriented and suited to political economy analysis. Further development of indicators along these lines will provide an invaluable source of evidence to test and refine political economy explanations of good governance and inform assistance strategies.

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Process-based governance indicators relevant to political economy analysis

Political economy analysis explains governance in terms of processes of interaction, bargaining and competition between holders of state power and organised groups in society. Such processes need to be better understood through greater use of process indicators, in particular those that measure opportunities for constructive state-society engagement that have the potential to bring about lasting improvements in governance. These might focus on the openness, predictability, institutionalisation and opportunities for state-society engagement in policy, budget and tax processes. Some promising examples are provided below:

**The Global Integrity Index.** Many of the sub-indicators making up the Global Integrity Index are suited to assessing citizen access and engagement in many governance processes including procurement, freedom of information, budget openness and the role of civil society organisations. While these are relevant to political economy analysis, there is a noticeable (but not overwhelming) bias in the Global Integrity measures towards the assessment of formal processes rather than informal realities.

**Open Budget Initiative.** The Open Budget Survey provides fact based measures assessing access to budgetary information and the potential for civic engagement at each stage of the budget cycle. These could usefully be complemented with more subjective measures of actual civic engagement in budget processes.

**Public Expenditure and Financial Accountability.** While many of the PEFA indicators are focussed on technical aspects of public financial management, a few are relevant to assessing opportunities for civic engagement around the budget (in particular PI-10 public access to fiscal information). There is also a welcome focus on the taxation side of PFM (PI-13,14,15), which has been largely neglected by governance indicators, but needs to be better understood in terms of the fairness, transparency and breadth of the tax system and the incentives this creates for tax compliance and negotiation around the use of tax revenues.

**Perceptions surveys.** There are a growing number of multi- or single country surveys of citizens’ perceptions towards government that help to understand processes of political competition and state-society engagement. Some illustrative examples include:

- **World Values Survey.** Questions about citizens’ interest in politics, engagement in various forms of political action, confidence in various state bodies, attitudes towards democracy.

- **Gallup Global Reports.** Gallup conducts opinions polls feeding into 19 global indices. Of particular interest to governance and political economy analysis are the national institutions index, law and order index, diversity index and corruption index.

- **Afrobarometer.** Afrobarometer conducts opinion surveys in many African countries covering a wide variety of political issues including interest in public affairs, media consumption, freedom of expression, attitudes towards government, civic and political engagement, responsiveness of government, trust in government, Similar providers in other continents include Latinobarometro and Asia Foundation.

- Single country surveys. There are numerous single country surveys, such as the 2008 State of Governance in Bangladesh report produced by the Institute of Governance Studies, BRAC University. This includes results of a large citizen survey generating indicators on citizen perceptions of corruption, access to justice, fairness
1. Actionable Governance Indicators are narrowly defined indicators focusing on relatively specific aspects of governance and offering clarity regarding the steps governments can take to improve their scores [see http://www.agidata.org].

2. Rwanda, for example, has contested internationally published indicators on several occasions, most recently in relation to criticism of the 2009 Mo Ibrahim Index [New Times, Kigali, 8 October 2010]. Rwanda has also established a national Doing Business Reform Taskforce that has spearheaded targeted reforms propelling the country into the position of top reformer in the 2010 Doing Business report.

3. DFID for example has included the World Governance Indicators Index of Corruption for the countries that it works in as one of the seven key impact indicators in its 2011-2015 Business Plan, [http://www.dfid.gov.uk/Documents/DFID-business-plan.pdf].

4. It should be noted that a change in only one of six indicators and at the 90% probability level sets a rather low bar to establish the existence of a statistically significant trend.

5. See UNDP’s Governance Assessment Portal for principles and examples of country led approaches to governance assessment.

### Useful references

Arndt, C and Oman, C (2006) Uses and Abuses of Governance Indicators, OECD


Centre for the Future State (2010), *Upside Down View of Governance*. Institute of Development Studies

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**About us**

The Policy Practice analyses policy options and supports institutional reforms in developing countries. We advise governments, development agencies, civil society organisations and companies, providing practical, innovative solutions based on realistic assessments of the challenges and opportunities they face. Our multi-disciplinary approach uses ‘The New Political Economy Perspective’ to understand the processes of socio-economic change and their effect on the implementation of development programmes.

This paper is part of a series of policy briefs intended to share our insights on an ongoing basis, in a form that is easily digestible and readable to policymakers, experts and others in the development field. For further information please contact Gareth Williams (gareth.williams@thepolicypractice.com).

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