

## FACTORS SUPPORTING LOCAL GOVERNMENTS IN PROGRAM IMPLEMENTATION GOVERNMENT AND BUSINESS ENTITY COOPERATION

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### Abstract:

Currently, there is a difference in the need for financing infrastructure development in Indonesia which cannot be provided by the APBN/APBD nor capital expenditure by SOEs. Therefore, there is a gap between development needs and the availability of funds, causing the emergence of a need for the availability of assistance from outside the government through funding mechanisms outside the APBN to fill this gap. One of the mechanisms currently being promoted by the government is the Public Private Partnership (PPP) program. However, the PPP projects currently underway in Indonesia have yet to run optimally. Several factors are considered to support or hinder the running of a PPP project in a country. In addition, it is also necessary to analyze the form of the PPP project scheme that is most suitable for the conditions in Indonesia.

**Keywords:** Infrastructure Development, Cooperation between Government and Business Entities (PPP), Supporting Factors, PPP Scheme.

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## INTRODUCTION

Infrastructure is one of the supporting community activities. Infrastructure also significantly influences economic growth in Indonesia (Hapsari, 2011). As the party authorized to provide the infrastructure, the government requires a huge fund for infrastructure development. Based on a study conducted by the World Bank, the minimum amount needed for infrastructure development is 5% of GDP (Gross Domestic Product). Based on data released by Bappenas, Indonesia noted that investment needs in infrastructure development reached 4.51%, still far from India, which recorded an investment of 7% of GDP and China, which invested 11% of GDP in building infrastructure facilities in their respective countries (Connecting East Asia, A New Framework for Infrastructure, 2005).

Based on the data on investment needs, there is still a gap in the financing needs for infrastructure development in Indonesia, which amounts to 17% of the total needs that cannot be provided by the APBN/APBD, nor capital expenditure by BUMN (RPJMN 2010-2014, Bappenas). It is in line with the New Public Management (NPM) theory which focuses on changing government behavior so that it becomes more effective and efficient, namely reducing the role of the government, opening up the role of business entities and the government focusing more on the broader public interest.

There is a gap between development needs and the availability of funds, causing the emergence of a need for the availability of assistance from outside the government through funding mechanisms outside the APBN to fill this gap. One of the mechanisms currently being promoted by the government is the Public Private Partnership (PPP) program. PPP is a contract agreement between the public sector (government) and business entities in the provision of public infrastructure services

or other essential services where these services have traditionally been provided by the government (Bappenas, 2009). The entry of business entities into the public sector certainly has consequences for the government because there is a difference in focus between the public and business entities. The main focus of the public sector is to provide services to the community and improve people's welfare, while business entities emphasize profit-oriented.

According to Hall (1998), the government prefers PPPs to carry out infrastructure development because business entities are considered more efficient and innovative than the government sector. In addition, business entities are also considered to have a competitive advantage in providing public services, and business entities are more able to manage several types of risk effectively than the public sector, which can certainly provide better service quality, cost savings, and risk reduction that is acceptable to the public Government. Leiringer (2006) also expressed an almost similar opinion, considering that governments worldwide would prefer PPPs for lower project costs, short development timeframes, competitive advantage, and better quality of results and advantages of innovation. Provided by business entities in providing solutions. Mumford (1998) also conducted another study that discussed why the government preferred PPP over conventional financing. This study identified six reasons for choosing a PPP. These six reasons are more precise definitions and specifications of user requirements, more carefully planned design and financing by business entity contractors, faster construction, more effective contract supervision, incentives that align with risks and rewards, and decision-making. Better decisions in the appropriate use of assets.

In order to regulate the implementation of project development under this PPP scheme, the government has issued several regulations, including a Presidential Regulation (Perpres) Number 67 of 2005 jo. Presidential Regulation Number 13 of 2010 jo. Presidential Decree Number 56 of 2011 jo. Presidential Regulation Number 66 of 2013 concerning Government Cooperation with Business Entities in Infrastructure Provision. However, the pattern, form and provisions for implementing PPP projects in Indonesia have yet to be balanced with implementing PPP projects in Indonesia. Based on the PPP implementation evaluation report by Bappenas in 2013 (Public Private Partnership Infrastructure Projects Plan In Indonesia), the number of projects undertaken since 2009 has decreased until 2013. For example, in 2009, there were 88 projects, while in 2010, it increased to 100. However, in subsequent years, the number of PPP projects decreased until 2013, when there were only 27 projects. In addition to the number of projects offered has decreased from year to year, the Bappenas evaluation report also stated that the PPP projects that have been running have yet to all reach the financial close<sup>1</sup> stage. Only one project has reached the close financial stage, namely the PLTU construction project in Central Java, which began in 2005 and reached the close financial stage in 2014.

Research Li et al. (2005) discussed the positive and negative factors that influence the determinants of acceptance of development projects through Public Private Partnerships (PPP) in England. The results of this study state that the four positive factors that most influence revenue determinants are related to better technology and economics, more significant benefits to the government, government avoidance of regulations and financial constraints, and government savings in transaction costs. At the same time, the three negative influencing factors are the lack of experience between the public sector and business entities, excessive commercialization of projects, and the high costs and time required by actors.

Cheung et al. (2009) discussed the reasons for implementing PPPs in three countries: Hong Kong, Australia and the UK. The results of the study state that in Hong Kong, the three main reasons for choosing a PPP are incentive factors from the government, economic development demands for better facilities, and the need will provide better services. Meanwhile, in Australia, the three main reasons for choosing PPP are the need for better service provision, economic development demands for better facilities, inefficiency due to monopoly by the public sector and lack of competition. The

results of research in England show a different focus of interest. The main reasons for choosing PPP by actors in the UK are the lack of financing by the government, economic development demands for better facilities, and avoiding restrictions on public investment. This research shows that each country has different reasons for implementing a PPP.

Ismail (2013) examined the factors that attracted interest in using PPP in Malaysia. This study used the same indicators as Li et al. (2005) and Cheung et al. (2009). The results of this study state that in Malaysia, the factors that influence PPP implementation decisions are facilitating creative and innovative approaches, solving the problem of limited government budgets, providing integrated solutions, profitability for local economic development and accelerating project growth.

This study chose East Java Province as the research object. The reason for choosing East Java is because East Java plays a vital role in the Master Plan for the Acceleration and Expansion of Indonesian Economic Development (MP3EI), where infrastructure development is one of the main steps taken by East Java Province to support this national strategy. As a province with the second largest economic activity in Indonesia after DKI Jakarta, East Java has a reasonably significant influence on the country's economy, contributing 14.85% to the national Gross Domestic Product; besides that, East Java has the largest area of the 6 provinces in Java Island, and has the second largest population in Indonesia after West Java; and the province with the largest number of districts/cities.

Even though the availability of infrastructure and its performance show adequate results, the growth trend of East Java's infrastructure spending (provincial, district/city, central) needs to catch up with East Java's GRDP growth. In other words, the government's ability to meet infrastructure needs will be left behind by economic growth. On average, infrastructure spending in East Java is only around 0.8 percent of its GRDP (East Java Public Finance Analysis, 2011). With this level of infrastructure spending, it is tough for local governments to finance infrastructure needs that can sustain their economic growth. Therefore, other funding sources are needed to help finance infrastructure in East Java. One of these financings can come from cooperation with business entities (PPP).

Based on the description above, the government's reasons for implementing the PPP program in each country differ. In Indonesia, the PPP mechanism has yet to be widely implemented, and many projects still need to be completed or are stagnant. This research was conducted because accounting, especially public sector accounting with a budget shortage, should be able to provide a greater focus on PPPs to develop funding sources outside the APBN so that the government's budget can meet community needs. Based on the existing phenomena, this research was conducted to determine the determinants of local government interest in the PPP program and the factors that influence it.

In addition, from the research results, the cause of the PPP program not being implemented optimally can be found. Based on this, the authors are interested in conducting research: "Factors Supporting Local Governments In The Implementation of Public-Private Cooperation Programs" (Exploration Study on City and Regency Governments of East Java Province)

Exploratory studies were chosen because only a few previous studies in the accounting field have addressed this issue. Exploratory studies aim to understand the characteristics of the phenomenon or problem being studied. This study is required to develop the Public Private Partnership (PPP) concept and define important variables.

Based on the things mentioned above, the problems raised in This research are: Are the district and city governments in East Java Province interested in the Public Private Partnership (PPP) program? What factors support the government's consideration in implementing the Public Private Partnership (PPP) program for district and city regional governments in East Java Province? What is the most appropriate Public Private Partnership (PPP) scheme implemented in East Java Province?

According to Li et al. (2005), 13 factors encourage the government to carry out Government and Business Entity Cooperation (PPP), namely, solving government budget problems, being able to provide integrated solutions, reducing government costs in capital expenditure, providing creative approaches and innovative, reduce total project costs, shorten project completion time, transfer risk to business entities, reduce government administrative costs, benefit local economic development, increase development capabilities, improve maintenance capabilities, other alternatives to government financing, and accelerate project development. The explanation for each factor is as follows:

- (a) Solving the problem of the government's budget. Currently, the size of the Government's APBN is no longer sufficient to meet the large needs for infrastructure development. Therefore, the government began to look for other sources of financing outside the budget in order to solve the problem of the need for infrastructure development. One of the sources of financing that can be chosen is the Cooperation between the Government and Business Entities.
- (b) Able to provide integrated solutions Cooperation between the Government and Business Entities is superior to other financing alternatives because it has many models and can benefit both parties. Business entities benefit from returns and government support in land acquisition. The government also benefits from the construction of infrastructure; even though it is built by a business entity, the ownership rights still belong to the government
- (c) Reducing government costs in capital expenditure the government no longer needs to spend large capital expenditures in building infrastructure if it chooses to use Public Private Partnership.
- (d) Providing creative and innovative approaches Cooperation between Government and Business Entities has many schemes that can be used according to the goals and benefits to be achieved by both parties.
- (e) Reducing the total cost of projects Business entities have work standards that can be said to be better than the government; besides that, the main focus of business entities is profit, so if a business entity handles the project, the costs required can also be shortened.
- (f) Shorten project completion time Business Entities have work standards that can be said to be better than the government, so if the work on a project is handled by a business entity, apart from costs, the time required can also be shortened
- (g) (g)Transfer of risk to the business entity In general, Social PPP projects use the modality of the build (design and construct), finance, and operate & maintenance scheme, so that risks can be handed over to the private sector. It is done because the incentives to carry out design innovations to achieve service efficiency and effectiveness are more in the private sector than in the public sector. The involvement of the government in intervening in development should be avoided as far as possible because if the mistakes caused by government interference cause the services produced to be disrupted, then the private sector cannot be held responsible. It causes the expected results of a PPP project not to be achieved.
- (h) Reducing government administrative costs Government and Business Entity Cooperation uses more of the administrative system of business entities. The government only acts as a supervisor and assists in land acquisition. So that the government can reduce administrative costs that are usually incurred when the government builds the infrastructure itself.
- (i) Beneficial for local economic development Collaboration between the government and business entities will be able to provide more appropriate infrastructure for the community. It is hoped that the community's economy will increase with infrastructure development. Because the facilities provided are better and can create new jobs.

- (j) Increasing the development ability (buildability) of the cooperation between the government and business entities increases the government's budget for building infrastructure so that the government's planned development can be realized.
- (k) Other alternatives for government financing Apart from the state budget, cooperation between the government and business entities can add other alternatives to government financing. PPPs are also able to maximize government revenues because if the infrastructure is fulfilled
- (l) Improves maintenance capabilities (maintainability), The division of rights and obligations between the government and business entities with the sharing of profits from the PPP project results can be a boost for both the business entities and the government in maintaining the infrastructure. Because if the infrastructure is of poor quality, then there will be no profit that can be returned for both parties.
- (m) Accelerate project development. It is undeniable that the work standards of business entities are better when compared to the public sector. So that if infrastructure development is handed over to a business entity, it is hoped that the project being implemented can be quickly implemented and completed according to better standards and time.

Meanwhile, according to Li et al. (2005), eleven factors are considered to hinder the implementation of PPP, namely, not a way out for public sector financing, few schemes that have reached the final stage, many delays due to political debates, less role of local government, high participation costs, time wasted on contract transactions, lack of required experience and skills, lack of clear evaluation criteria from the government, many restrictions on participation, lengthy delays in negotiations, political pressures. The explanation for each factor is as follows:

- (a) Not a way out for public sector financing. The Public Private Partnership Scheme (PPP) is a new financing scheme. It still creates distrust for local governments to use financing with this scheme because there are no examples of successful projects using this scheme.
- (b) Few schemes have reached the final stage. There are quite a several steps that need to be carried out prior to implementing a PPP and require agreement from both parties. The process is quite complicated and also takes a long time. It resulted in a long time for completion, which ultimately resulted in no project being completed to date.
- (c) Many delays due to political debates. Projects that use financing under the PPP scheme usually have large values. In addition, the projects to be built are usually strategic infrastructure development projects such as roads, airports, drinking water treatment plants and hospitals. This infrastructure is a facility for the broader community, so many political parties must be involved. The different views of each party made the agreement process take a long time.
- (d) Less role of local government. Most of the funding that has been used by the government so far is owned by the government. However, with a PPP scheme, the government must share its role with business entities in infrastructure development. The existence of this division of roles is considered by some parties to be followed by the distribution of ownership rights.
- (e) High participation costs Using the PPP scheme requires a lengthy negotiation process because many things need to be decided between the two parties. The government and business entities want to avoid one-sided responsibility. The negotiation process requires a significant amount of money compared to traditional financing.
- (f) Time wasted on contract transactions. The complexity of the PPP scheme and the time it takes to reach an agreement require a longer time if the government uses funding from the APBN/APBD. It is often the reason for canceling the use of PPP schemes in infrastructure development. Because the infrastructure needs for the community must be met immediately
- (g) Lack of experience and skills needed. The PPP scheme is still considered a new financing model by the government. However, the Business Entity needs to become more familiar with this

- scheme. The experience and skills possessed by business entities still need to be considered able to accommodate the criteria desired by the local government.
- (h) Lack of clear evaluation criteria from the government. The project's size and the process's length in the PPP scheme result in many parties being involved. Each party brings interests from different points of view. In addition, the policies in each different government period also affect the evaluation criteria required by the government.
  - (i) The number of restrictions on participation. Requirements that need to be completed in implementing the PPP scheme compared to traditional financing are also considered to hinder the implementation of the PPP scheme.
  - (j) Long delays in negotiations the number of parties involved in the negotiation process resulted in lots of input and long discussions.
  - (k) There is political pressure. So far, financing for infrastructure development still requires approval from the legislature. On the legislative side, it cannot be denied that there are political interests. It causes the financing approval to be improved when submitted to the legislature.

In general, previous empirical studies discussing the concept of Public Private Partnership (PPP) were mainly conducted by researchers in the field of civil engineering, particularly regarding construction management. Currently, there still needs to be more research conducted by researchers in the field of accounting that discusses the topic of PPP. According to Andon (2012), PPP has now been developed in many countries, so the research topic on PPP, especially in the accounting field, is a worthy and important topic to do because PPP is currently growing. Research in the field of accounting regarding PPPs can discuss issues of the nature, structure, ways of organizing, governance, benefits and limitations of PPPs.

Previous research with topics similar to this study was conducted by Li et al. (2005), who examined the positive and negative factors that influenced the interest in using Public Private Partnerships in the UK. This study found that the most influencing positive factors were better technological and economic opportunities for projects, greater benefits for the public sector, avoidance of the public sector against statutory and financial barriers, and public sector savings on transaction costs. While the negative factors that influenced the participants' lack of experience, excessive commercialism in the project, and the high cost of participation and the time required.

Another study using the Li et al. (2005) questionnaire and discussing a similar topic was conducted by Chen et al. (2009), Cheung et al. (2009), and Ismail (2013). Research conducted by Chen et al. (2009) discusses the factors driving the adoption of PPP in China and Hong Kong. Meanwhile, Cheung et al. (2009) examine the factor comparison of using PPPs in Hong Kong, Australia and the UK. There are two research titles conducted by Ismail (2013) on the topic of PPP, namely the factors that attract the use of PPP in Malaysia and Critical Success Factors (CSF) for PPP implementation in Malaysia. In addition, research on PPP in Malaysia was also carried out by Ismail (2014) concerning a comparison of the factors driving it. Although these studies used the same instrument, namely the Li et al. questionnaire, the results of each study showed differences. Each country's interests and reasons for using PPP are different. In addition, the readiness of each country also influences the factors that can support the success of PPP implementation.

The results of research by Cheung et al. (2009) state that the three most important factors that support PPP implementation in Hong Kong are; (1) incentives for business entities; (2) there is encouragement and pressure for economic development, especially in the field of infrastructure; (3) there are demands for better service. Different results are shown in Australia; the three most important factors that support PPP implementation in Australia are (1) there are demands for better service; (2) there is encouragement and pressure for economic development, especially in the field of infrastructure; (3) inefficiency due to monopoly by the public sector and lack of competition.

Meanwhile, research conducted by Ismail (2013) shows that in Malaysia, the three most important factors that support PPP implementation are (1) the encouragement and pressure of economic development, especially in the field of infrastructure; (2) incentives for business entities; (3) shortage of government financing.

In addition to research using the Li et al. questionnaire, research on PPP was also conducted by Akerele and Gidado (2003), who discussed the risks and obstacles to PPP implementation in Nigeria. This study shows that differences in understanding between the public sector and business entities cause obstacles to PPP implementation in Nigeria. The public sector ignores the risks and obstacles that should be considered when undertaking a PPP project. Previous research was also conducted by Jamali (2004), who examined the successes and failures of PPP implementation in Lebanon. This research uses the case study method on several projects in Lebanon. Based on the case analysis that has been done, this study suggests developing countries that will use KPD to prepare legislation effectively before implementing PPPs because the inequality of qualifications and contributions is one of the causes of PPP failure (Hagen, 2002).

Research by Sharma (2012) discusses the determinants of PPPs in developing economic countries. The results of this study indicate that relatively large markets and those with high incomes are more attractive to PPP projects. Besides, macroeconomic stability, regulatory quality and governance are important factors to consider in a PPP project. However, this research also proves that political support and a lack of budget do not affect the implementation of PPP projects.

This research is expected to be able to explain the interest of the district and city regional governments in East Java Province in the Public Private Partnership (PPP) program as an alternative to non-APBD financing for infrastructure development in the regions and to explain the factors that influence the considerations for implementing the Government Cooperation program. And Business Entities (PPP) in district and city regional governments in East Java Province. Based on this description, the researcher conducted a study entitled "Factors Supporting Local Governments in Program Implementation Government and Business Entity Cooperation".

## METHODS

This research is an exploratory study. The phenomenon studied in this study is regarding the Public Private Partnership (PPP) program in Indonesia in general and specifically in East Java Province. Exploratory research in this study was carried out through library research and research on publication data to obtain relevant secondary data from various sources. The results of the exploratory research will be used as input in the preparation of the questionnaire. The research object is the source and place to obtain data. The object of this research is the City/District Government in East Java Province. The population in this study is the Unit Local Government Work (SKPD) City/District in East Java Province. The sample is part of the population to be studied by researchers. This study took a sample of SKPDs involved in implementing Public Private Partnerships, namely the Regional Planning and Development Agency, the Public Works Office, and the Regional Finance and Asset Management Agency. The data analysis method used in this research is descriptive analysis.

**Table 1.** Distribution and Collection of Questionnaires

No.	Process	Total
1.	The number of questionnaires distributed	190
2.	The number of questionnaires returned	53
3.	The number of questionnaires used for research	53
4.	Number of incomplete questionnaires	0

5.	Rate of return (response rate)	28%
6.	The rate of return that can be used for research	20%

Source: Author, 2023

**RESULT AND DISCUSSION**

This study examines the factors that support local governments in implementing Public Private Partnership (PPP). The factors used in this study were divided into two, namely, supporting factors (supporters) and inhibiting factors (inhibitors). This research has found the factors considered to be the most supportive and inhibiting for local governments in implementing the PPP scheme. The following describes the discussion regarding the three factors considered the most supportive and hindering in implementing the PPP scheme in local governments.

Based on the research results, the five factors that most influence local government interest in adopting a government-business cooperation scheme are; 1.) Reduce government capital costs; 2.) Improving the ability of infrastructure development; 3.) Providing a creative and innovative approach; 4.) Other Alternative; 5.) Risk Transfers for Government Financing

The factor that is considered the most important is the factor of reducing the cost of government capital. One of the triggering factors for the emergence of the PPP scheme is the lack of a government budget to build infrastructure. Government officials have also understood this, so local governments are starting to choose to use the PPP scheme compared to other types of financing, such as debt or bonds. It is also in line with research conducted by Peat (1995) and Robinson (2000), which states that many state governments generally adopt PPP because it is considered that by working with business entities, the business entity will help bear responsibility in terms of development, economy, operation and maintenance of significant infrastructure. So that it can help reduce the government budget in terms of infrastructure development.

The inhibiting factors that are considered to hinder are as follows: 1) political pressure; 2) a few schemes that have reached the final stage; 3) time wasted on contract transactions; 4) high participation costs; 5) lack of experience and skills required; 6) lack of clarity on evaluation criteria from the government. It is in line with research conducted by Sachs et al. (2007), Reside (2009), Reside and Mendoza (2010) and Chan et al. (2010), who found that political stability affects the interest of business entities in participating in PPP schemes. Bing, et., al (2005) stated that the lengthy political process of discussing PPP projects led to delays in project implementation. According to Tam (1999), political stability is essential in every development process in developing countries. It is also what distinguishes the factors that influence PPP implementation between developed and developing countries. The type of scheme chosen by the majority of respondents is the scheme through Built Operate Transfer (BOT).

**Table 2.** Results of Descriptive Analysis for Supporting Factors

Factor	Mean	Standard Deviation	Ranking
Budget Solutions	3.4528	0.052493	6
Integrated Solutions	3.4340	.93046	8
Reducing capital costs	4.0377	.80771	1
Creative & innovative approach	3.6792	.67293	3
Reduce project costs	3.0943	.88283	12
Shorten project time	3.4340	.97091	9
Risk transfer	3.6604	.67776	4
Reduce administrative costs	3.3208	1.07011	11
Local economic development	3.4528	.97203	7
Buildability	3.8868	.57714	2
Alternative Financing	3.5472	.69520	5
Maintainability	3.2075	.63119	10

Speed up projects	3.0000	.67937	13
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Source: Data Processed 2017

**Table 3.** Results of Descriptive Analysis for Inhibiting Factors

Factor	Mean	Standard Deviation	Ranking
Not a way out of financing	2.8868	.31988	10
The schematic is not finished yet	3.3396	.89751	2
Lots of delays	3.1321	1.11005	7
Little regional role	2.7736	.42252	11
High participation fee	3.3019	.63805	4
Wasted time	3.3208	.67293	3
Lack of experience & skills	3.2075	.63119	5
Unclear goals & criteria	3.2075	.79320	6
Lots of limitations	2.9811	.82019	9
Length of negotiation	3.1132	.89142	8
Political pressure	3.9811	.95052	1

Source: Data Processed 2017

## CONCLUSION

This study aims to explain the interest of district and city local governments in East Java Province in the Government and Business Entity Cooperation (PPP) program as an alternative to non-APBD financing for infrastructure development in the regions, as well as to explain factors that influence the considerations for implementing the Public Private Partnership (PPP) program in regency and city regional governments in East Java Province. Based on the research results, the following conclusions can be drawn: 1) Based on the results of the analysis, some factors support the implementation of Public Private Partnership (PPP) in Regional Governments in East Java Province, namely the factor of reducing government capital costs, increasing development capabilities, providing creative approaches and innovation, risk transfer, and other alternatives to government financing. While the factors considered to be inhibiting are political pressure, few schemes have reached the final stage, time wasted on contract transactions, high participation costs, lack of required experience and skills, and lack of clear evaluation criteria from the government. 2) Only a few local governments in East Java Province have implemented a PPP scheme. However, all respondents expressed interest in using the PPP scheme as alternative financing outside the APBN/APBD in infrastructure development projects. 3) The type of scheme most in demand by local governments in East Java Province is the Built, Operate, Transfer (BOT) scheme. The second scheme of interest is the lease agreement

Further research is suggested in order to broaden the range of respondents. It is expected to be able to research all provinces in Indonesia. It is because many PPP projects are carried out outside Java. Alternatively, advise the government to immediately regulate policies that can attract business entities to cooperate in infrastructure development using the PPP scheme. Political pressure is a factor considered to be an obstacle in PPP implementation. In addition, it is hoped that the regional government will start optimizing the PPP scheme in infrastructure development, not just relying on the APBN/APBD.

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