



EFFECT OF PERCEIVED POLITICAL ENVIRONMENT ON LOAN REPAYMENT PERFORMANCES AND SUSTAINABILITY OF YOUTH REVOLVING FUND IN OROMIA REGIONAL STATE, ETHIOPIA

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Abstract: Ethiopian Youth Revolving Fund (YRF) loan was established with the objective to provide financial and technical assistance to unemployed youths in alleviating their economic and social difficulties by using the fund sustainably. However, the government and Oromia Credit and Saving Share Company (OCSSCo) reports(2017/218-2020/2021) show that loan repayment was not performed as expected for the reasons not yet scientifically studied and justified. The objective of this study was to examine the effect of perceived political environment variables on loan repayment performance and sustainability of YRF in Oromia Regional State, Ethiopia. The study used cross-sectional descriptive and explanatory research design and the data was collected from 328 sample respondents in the selected area. STATA software version 16 was employed and Chi-square (X^2) test of association was used to check the significant association among different explanatory variables and their effect on YRF loan repayment performance. The findings showed that variables such as initial time of fund release, perception that money is political kit, information asymmetry about fund, escorted systematic corruption, intervention of third party in fund approval, losses and damages of business due to political instability and strikes have affected loan repayment performance and sustainability of YRF at less than 5% level of significance. Finally, the government and OCSSCo are recommended to create sufficient public awareness to about the fund, provide adequate trainings and guidance and follow-up borrowers' businesses. Government should also create a system that minimize unnecessary intervention on fund approval, eliminate bias and nepotism, make accountable officials for misconduct. It should be also develop

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fewer policies and legislative texts to govern the implementation of YRF and create a public- private partnership to implement and manage the fund keeping remote its hands from implementation of the fund but with adequate supervision to ensure the fund's effectiveness and long-term sustainability,

Keywords: Youth Revolving Fund, perceived political environment, loan repayment performance, sustainability.

INTRODUCTION

Financial services provided by microfinance to the poor are among the poor are powerful tools to fight poverty. Access to a well-functioning financial system can allow individuals both economically and socially to integrate more successfully into the economy of countries and protect themselves against economic tremors (Beisland et.al. 2019; Lopatta *et al.*, 2017; Garomsa, 2017; Werema and Opanga, 2016; Rashid *et al.* 2015). Access to government revolving funds helps the poor be involved in income-generating activities, which induce them to accumulate the capital needed for investment and improve their living standards (World Bank 2015; Nawai and Shariff 2013; and Mokhtar *et al.* 2012).

On the other hand, youth unemployment is on the upswing in an environment where economic growth isn't keeping pace with the need to provide job opportunities to all youth at the same time and this has recently become a major concern for most developing countries, particularly in Sub-Saharan Africa (ILO, 2012). The world bank 2015 baseline assessment reports "Solutions for Young Employment (S4YE)" asserted that without access to employment, today's youth will not be able to transcend poverty or solve economic marginalization by 2030 (World Bank 2015). In this regard, governments are responsible for creating an "enabling environment" in which youth can prosper. As a response to this and with the objective to enhance youth employability, eliminate poverty and accelerate development, numerous African countries (Botswana, Mali, Tanzania, Kenya, South Africa, Namibia, and Tunisia) have set up Youth Revolving Funds to assist unemployed youth in starting businesses through MFIs (ILO 2012).

Ethiopia's government has also worked hard by developing various youth-related packages to meet development goals and address youth unemployment issues. Currently, it established the Ethiopian Youth Revolving Fund (YRF) with \$546 million/10 billion ETB on March 10, 2017, by Proclamation No. 995/2017 with the objectives to provide youth with financial and technical

support necessary to help them alleviate their economic and social problems by engaging in organized income-generating activities (EYRF Establishment Proclamation No. 995/2017). As stated in this proclamation, the implementation and management of funds requires involvement of different responsible bodies from federal government to district and Micro-enterprise Agencies. Subsequently, the fund was allocated to all the nine regional states and two administrative councils of Ethiopia following the procedure stated in the proclamation giving management responsibility to micro financial institutions (MFIs). Oromia Regional State, like other regional states, distributed the fund to unemployed youth very soon through a microfinance called “Oromia Credit and Saving Share Company (OCSSCo)” with the hope that it will replenish itself and sustainably provide the financial access to the potential unemployed youth in the region. However, the government and OCSSCo annual reports (2018-2020/2021) showed that the loan repayment performance was not as expected for the reasons not scientifically studied and identified.

On the other hand, a large number of studies in underdeveloped and developing counties, showed that MFIs are suffering from loan defaults that has destroyed their lending capacities because of many reasons which may or may not be common to all countries (Jote 2018; Oringo *et al.*, 2016; Mesele *et al.* 2016; Korankye, 2014; Kiliswa & Bayat, 2014; Abdul *et al.* 2014). There is also a general fear the loan default problems that have been challenging the other credit schemes of MFIs may also endanger the Youth Revolving Funds sustainability and Youth Revolving Fund loan implementation demands strict continuous follow-up and monitoring as failure to manage its sustainability may result in many negative consequences of youth unemployment. When young people are not fully participated in the labour force, it will be a burden and risk for the government in the form of the increased cost of social safety nets, lost productivity, and ever-mounting social costs and in extreme case, the consequences may expand to a similar situation to the Arab Spring that led to the removal of presidents of Tunisian, Libya and Egypt (Qadir Mushtaq and Afzal, 2017). This will hamper the country’s national security and economic development and endanger the lives of unemployed youth.

A large number of studies have been conducted in both underdeveloped and developing countries on Youth Revolving Funds, though its naming differs from country to country. However, they fail to include specific effects of perceived political environment (concept of persons thinking, sentiments, perceptions, and behaviors about Youth Revolving Funds) on loan repayment

performance and sustainability of Youth Revolving Fund. Furthermore, there is a general potential fear that if the perception about fund is wrong, YRF loan sustainability will be elusive and finally result in YRF objectives failure. It was on this base that this study has conducted to examine the effect of perceived political environment on loan repayment performances and sustainability of the Youth Revolving Fund in Oromia Regional State, Ethiopia.

2. LITERATURE OF THE STUDY

2.1. Theoretical Review

2.1.1. Experiential Learning Theory (ELT)

David Kolb's developed Experiential Learning Theory in 1984. The theory combines a person's experience, perception, cognition, and behavior as a holistic point of view that applies to all facets of life, all age groups and different cultures, and various organizational setting. The theory proposes that individuals move through a series of immediate experiences, leading to perception and reflections on the experiences. These reflections are then absorbed and connected with past information and translated into the concept, which results in new ways and actions to adjust the experience. Kolb describes the management process as learning for people and organizations to unravel issues, make educated decisions, and distinguish entrepreneurship opportunities and challenges. Experiential Learning Theory involves the integration of the functioning of the persons thinking, sentiments, perceptions, and behaviors. Norell (2001) contended that lending institutions should train borrowers earlier prior to loan disbursement since the trainers must be able to take into consideration the behavior and nature of the lenders, in this way being cognizant of the need to inculcate the borrowers to practice certain behaviors of commitment and reimbursement. The theory applies to use in this study since the Youth Revolving Fund loan uses the concept of persons thinking, sentiments, perceptions, and behaviors about youth revolving funds, and its environment is one of the primary features that help/affect the group's repayment

2.1.2. Theory of Planned Behavior (TPB)

The theory of planned behavior (TPB) offers an alternative approach to understanding microenterprises' default repayment intention. The concept of planned behavior states that planned behaviors are prejudiced by an individual's attitude toward action, a subjective norms that surround its execution, and

the individual's perception of control over the activity (Ajzen, 1991). Ajzen's theory has been used to predict a variety of behaviors (Martin *et al.*, 2010; Stone *et al.*, 2010). Planned behavior according to the author, is the degree to which people emphatically view a particular behavior (attitude), believe that significant to "others require them to engage in the behavior (subjective norm), and accept that they can perform the behavior (perceived behavioral control) are all direct determinants of the strength of their intention to engage in the behavior. This theory is relevant to current study since an individual's attitude toward the behavior of youth revolving funds influenced the youth revolving fund loan. This theory was used as a fundamental theory to study "the effect of the perceived political environment on the loan repayment performance and sustainability of the Youth Revolving Fund in Oromia Regional State, Ethiopia".

2.2. Empirical Review

The public's perception of the Youth Revolving Fund significantly impacts repayment performance. Wamuyu (2010), in the study titled "Hitting the Target, Missing the Point: Youth Policies and Programs in Kenya," investigated that the public perceptions and attitudes about the Youth Entrepreneurship Development Fund were negatively affected mostly by the date of its establishment. Kimando, (2012) also revealed that the public perceived it as a campaign tool to persuade youth to vote for the ruling party or political kitty (political gifts), which the government only introduced to propel its political interest, and resulted in low loan recovery that negatively affecting the loan repayment performances. The study by Sikenyi (2017) disclosed that while government involvement is good, political parties in Kenya propose employment plans to gain legitimacy and support from the youth. As a result, the Youth Enterprise Development Fund was perceived as a political project, a scheme to buy the loyalty of youths to a particular political party or administration. He noted that government youth initiatives are jeopardized by the links between youth funding, political parties, and the government.

Njangiru (2014) also found an excessive level of snowballing, in which members of a group wrongly perceived government's loans as grants and are unable to make loan repayment because others have failed to repay their debts, causing sustainability to deteriorate. The finding showed that most youth group members supported the prosecution and blacklisting of loan defaulters rather than making their loan repayments. A study in Uganda by Bukenya (2019)

revealed that some politicians passed on false information in the process of organizing youth in the community to gain their careers at the expense youth loan fund that the youth loan fund was a none repayable government grant and the youth perceived youth loan program as a political program to the extent of saying, “Youth loan program is the handshake from the president.” The study in Kenya by Muthoni *et al.* (2017) noted the problem of low repayment of youth development fund was resulted from excessive political interference by local leaders as they promised money to their members vying for the seat, and the members believed the money was free that does not require repayment, Studies in Ethiopia by (Tigabu & Gebeyehu, 2020 ; Gebremedhin 2008), also found that many beneficiaries (borrowers) perceived revolving credit fund as a mere aid that will not require any repayment in the future. As a result, they used it for their expenditures rather than for planned investments. Shumetie and Watabaji (2019) also showed that enterprises could not introduce new products/services in their business process for better profitability and competitiveness for fear of damage because of the recurrent political instability in the country.

Tigabu and Gebeyehu (2020), in study on “Enhancement of Employment and Income Opportunities for Rural Youth in Ethiopia: A Review of Four Large Youth Employment Initiatives”, revealed that the majority of the initiatives were motivated by and produced in response to the country’s political instability. The 2006 youth package, for example, was created in response to the 2005 post-election turmoil, while the YRF (2017) and Rural Job Opportunity Creation Strategy (RJOCS) (2017) were created in response to months of instability in the country. As a result, the packages may be short-sighted, devised solely to gain legitimacy and consolidate power rather than to effectively address young unemployment problems.

Though few researches can be conducted in the area of “effect of Perception of Political Environment on loan repayment”, the existing sources have contributed good initiatives as can be observed from the above review. However they concentrated on public perceptions and attitudes about the government initiative fund, problems of an excessive level of snowballing about the government loans as grants, and misconception among youth and implementers about the fund on loan repayment. The current study incorporated some additional factors such as, impact of political instability, effect damages of businesses because of political strike, impact of the time of government initiated fund release on loan repayment and its sustainability and replicated it from the Oromia Regional State, Ethiopia perspective as it results

with different additional findings because of the differences situation and area of this study.

2.3. Conceptual Framework of the Study

Considering the various perceived political environment variables that could affect loan repayment performances and the sustainability of YRF in Oromia/ Ethiopia, The conceptual model is used to assess factors like the initial time of fund release, perception about the fund, inducement of corruption in the system, information asymmetry from local administration, and losses, damages and interruption of business due to political instabilities and strikes as indicated in Figure 1 below.

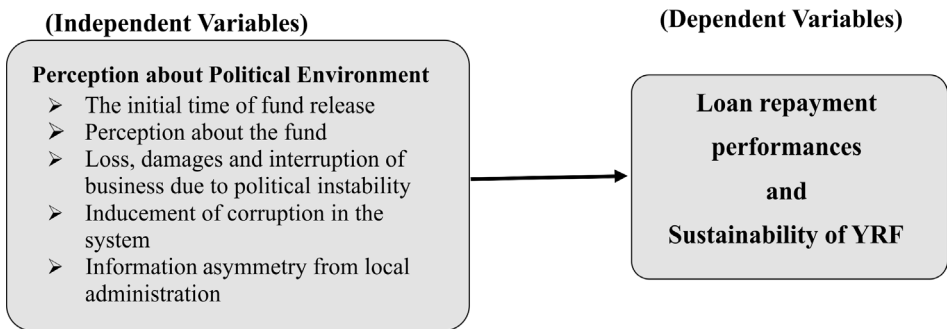


Figure 1: Conceptual framework of the study

Source: Researcher's own development (2021)

3. METHODS

3.1. Descriptions of the Study Area

The research was conducted in Ethiopia's Oromia Regional State, located in Africa's horn. Ethiopia is organized into eleven regional states and administrative councils. Oromia (Oromiyaa) is the largest region in geographical area and population and the homeland Oromo people. It is situated in the heart of the country, surrounding Finfinne, also called Addis Ababa (the capital city of Oromia and Ethiopia), in all directions. Currently, the state has 21 administrative zones and over 300 districts, all of which have a pleasant climate for life and good fertile land for investment and development. Oromia's population was estimated to be about thirty-eight million in mid-2018, and its land area is about 535,690 square kilometers (CSA, 2020). Figure 2 below shows the map of Oromia Regional State in Ethiopia in East Africa.

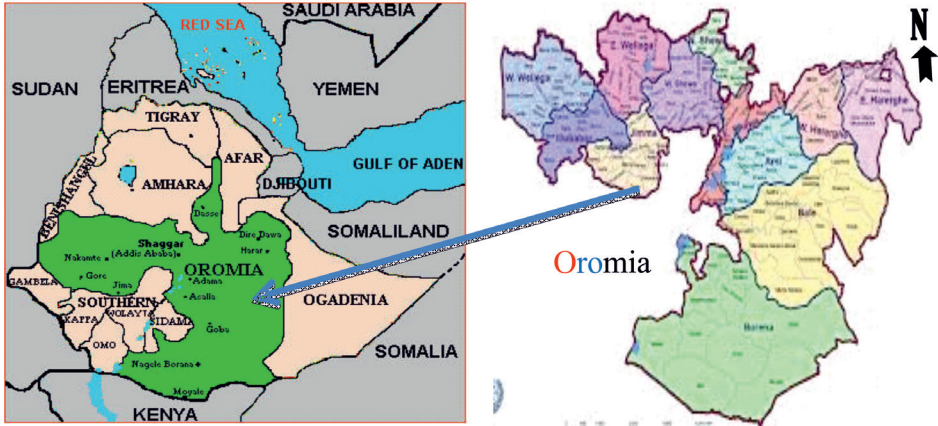


Figure 2: Map of Oromia Regional State

Source: <http://www.ethiodemographyandhealth.org/>(2021)

3.2. Sampling Techniques and Procedures

From the total population of 29,942 YRF loan beneficiary groups and loan officers in the region, a representative sample of 380 was selected using Kothari (2004) formula at 95% level of confidence and a 5% confidence interval to enhance the reliability of the findings.

$$n = \frac{z^2 \cdot p \cdot q \cdot N}{e^2 (N - 1) + z^2 \cdot p \cdot q}$$

Where;

N = Total population of the study

z = 1.96 (as per table of area under normal curve for the given confidence level of 95%).

P = the proportion of participation or perception,

q = the proportion that may not include and

e = the error term

The representative sample size was determined using a multi-stage sampling method. Stage I, 20 Oromia zones, were divided into five clusters based on geography and business activities. In a sampling design stage II, sample respondents were proportionally allocated to the percentage of the total population of the nine (09) purposively selected zones. Finally, 380 respondents were selected from 14,183 beneficiary groups in the selected cluster zones (353 sample beneficiary groups through simple random sampling techniques and 27 loan officers).

3.3. Methods Data Collection

Structured questionnaires, semi-structured interviews, and Focus Group Discussions (FGD) were used to collect primary data from the selected sample size.

3.4. Methods of Data Analysis

3.4.1. Descriptive Statistics

The current study was used descriptive statistics such as frequency and percentage to summarize the masses data or information.

3.4.2. Chi-square Test of Association

This study used the chi-square test to check for a statistically significant relationship among the independent variables and the respective dependent (outcome) variables and the formula for chi-square as per (Morgan 2019) is as follows:

$$X^2 = \frac{(\text{Observed Count} - \text{Expected Count})^2}{\text{Expected Count}}$$

$$X^2 = \frac{\sum(O - E)^2}{E}$$

Where

χ^2 = The value of chi square

O = The observed value

E = The expected value

$\sum (O - E)^2$ = all the values of (O - E) squared then added together

4. RESULTS AND DISCUSSIONS

4.1. Results

4.1.1. The Response Rate

A total of 380 sample respondents were used for this study by dividing them into two response categories (353 sample respondents were selected to respond to questionnaires, and 27 respondents were addressed through the interview).

From 353 questionnaires distributed to respondents, 85% of questionnaires were correctly filled, collected, and used for this study analysis. All twenty-seven (27) respondents were selected for an interview well addressed, and their responses were included in this analysis. The overall response rate for this study was about to 86% of the target sample respondents. According to Draugalis *et al.* (2008) and JoLaine (2020), a 50% - 60% or above response rate is ideal and sufficient for research. As a result, the response rate for this survey (86%) was excellent, as it was higher than the optimal standard.

4.1.2. Chi-square Test Results

The objective of this study was to examine the effect of perceived political environments on YRF loan repayment performances and its sustainability in Oromia, Ethiopia, and the result of the respondents' responses was summarized in Table 1 below.

The result (Table 1) revealed that 90%, 89%, 87% and 85% of respondents agreed that loss and damages of business due to political instability, the initial time of fund release was during strong political opposition and youths strive only to collect the fund without critically identifying the investment avenues, the perception that the money is an aid (political kit) that does not need repayment, and interruption of business due to political strike respectively had negatively affected the Youth Revolving Fund loan repayments performance and its sustainability respectively. This implies that when the fund is lost or damaged because of the political instability the borrowers can't recover it and the business operation is interrupted; income from the business will be discontinued causing borrowers incapable to perform the youth revolving fund loan repayment. Similarly, the wrong perceptions about the fund made youths to expend the money for wishes than using for proposed business and the time of commencing the fund release affected YRF loan repayment performances and its sustainability. .

From the table 1, it was found that 85% ,83%) and 81% of the respondents agreed that the fund was perceived as a political kit given by the government to youth to freeze the action of Qeuro (Youth), the money was a compensation for the lost life of youth in revolution against the removed regime (TPLF), and the fund was financial aid given by non-governmental organizations to youth for free. This shows that the situation in which the fund had given was during a serious struggle against the removed regime and force the youth to perceive the fund as given to freeze the action of Qeuro though the fund intended to create

group-based income-generating business and its consequence had negatively affected the loan repayment.

The Chi-square test (Table 1) shows that there was a statistically significant relationship between perceived political environment such as the initial time of fund release, the perception that money is a political kit, the thought that money is a compensation for the lost life of youth, the perception that fund is a political kit given to freeze the action of Qeuro (youth), the fund financial aid given NGO to youth for free, loss and damages of business due to political instability and interruption of business due to political strike and YRF loan repayment performances and its sustainability at less than 1% level of probability.

Table 1: Perceived Political Environments on YRF loan Repayment Performances and its Sustainability (N=301)

<i>Assessment tools/Items</i>	<i>Likert scales</i>			χ^2	<i>P-values</i>
	<i>D</i>	<i>N</i>	<i>A</i>		
	<i>N₀</i> (%)	<i>N₀</i> (%)	<i>N₀</i> (%)		
The initial time of fund release was during strong political opposition and youths collected the fund without identifying the investment avenues.	6(2)	27(9)	268 (89)	31.801	0.000
The perception is that money is aids (political kit) that do not need a repayment.	12(4)	28(9)	261 (87)	28.156	0.000
Information asymmetry that the money is a compensation for the lost life of youth in revolution against the removed regime (TPLF).	10(3)	42(14)	249 (83)	37.758	0.000
Perception that the fund is a political kit given by the government to the youth to freeze the action of Kero (Youth).	9(3)	36(12)	256 (85)	33.681	0.000
Escorted systematic corruption in which some officers accept bribe recompense to qualify the candidate imitating that the fund financial aid given by NGOs to youth for free.	15(5)	43(14)	243 (81)	23.598	0.000
Loss and damages of business due to political instability have negatively affected YRF loan repayments.	4(1)	28(9)	269 (90)	26.724	0.000
Interruption of business due to political strikes has negatively affected the YRF loan repayments.	24(8)	22(7)	255 (85)	38.229	0.000
<i>Source:</i> Researcher's Survey Data (2021)					
<i>Keys:</i> D- Disagree; N- Neutral; A- Agree; χ^2 - Chi-Square					

4.2. Discussion

The result of the current study shows that the initial time of fund release was during strong political opposition and youths strived only to collect the fund without identifying the investment avenues. This result is supported by Kefale *et al.* (2021), Sikenyi (2017), and Kimando (2012), which noted that the introduction of the YRF plan came at a crucial time, implying that political events and concerns will once again play a significant role in major youth policy improvements. Moreover, the interview feedback showed that before the introduction of the youth revolving fund scheme youths were actively confronted by the administration protesting political and economic marginalization on streets across the country. This made a sense of urgency to distribute the fund even overnights to please the over-flooding youth action and this has negatively affected the YRF loan repayment performance and its sustainability.

The current study is in line with Tigabu and Gebeyehu (2020), Shumetie and Watabaji (2019), and Gebremedhin (2008), which found that the administration blames the unemployed young for not having the requisite skills and understanding to use the cash, and some of the applicants regarded the monies as a gift, with no responsibility to return after making a profit. On other hand, the current result shows the existence of information asymmetry which propagated that the money (YRF) is a compensation for the lost life of youth in revolution against the removed regime. This result is supported by Bukenya (2019), which revealed that some politicians passed on false information, in the process of mobilizing the youth in communities, to gain their careers at the expense of youth loan fund effectiveness that the youth loan fund was none repayable government grant.

The current study is consistent with Kefale *et al.* (2021), which reported that one of the Quero youth's missions accomplished, to strengthen Oromo political influence at the national level, was realized indicating that the political party to reconsider major youth policy reforms. This prevalence challenges and the coincidence of the time of introduction of the YRF scheme, made the youth perceive the fund as a political kit given by the government to youth to freeze the action of Quero (Youth).

The current study is also similar to the finding of Tigabu and Gebeyehu (2020), Bukenya (2019), Muthoni *et al.* (2017), and Njangiru (2014), which revealed that the main reasons for low recovery YRF than what the government aimed were the youth and implementers have the false perception about the

money, considering it as if it were a grant/aid and technical support that youths were facing after starting a business. Moreover, the interview result showed that youths perceived that the money was a compensation for the lost life of youth in the revolution against the removed regime (TPLF) and this reduced the YRF loan repayment and its sustainability.

The current finding is consistent to the results of Bukenya (2019), Muthoni *et al.* (2017) and Njangiru (2014), which found the existence of an excessive level of snowballing, in which members of a group perceived government loans as a grants and refuse to return because others failed to repay their debts, causing sustainability to suffer. The finding showed that the majority of youth group members supported the prosecution and blacklisting of loan defaulters than making their loan repayments. The current study showed that loss and damages of business due to political instability have affected loan repayment performance and sustainability of YRF. This result is supported by Shumetie and Watabaji (2019), which showed that enterprises couldn't introduce new products/services in their business process for better profitability, and competitiveness for fear of damages due to the recurrent political instability in the country. In addition to this, the interview result showed that interruption of business due to political strikes has negatively affected the YRF loan repayment performance and its sustainability.

5. CONCLUSIONS AND RECOMMENDATIONS

5.1. Conclusions

Based on the above analysis, the current study concluded that the loan repayment performances was affected by the initial time of fund release which was during strong political opposition and youths strived only to collect the fund without identifying the investment avenues. Besides, a sense of urgency to distribute the fund even overnights to please the over flooding youth action has negatively affected the YRF loan repayment performance and its sustainability. The finding also showed that some applicants perceived the funds as a gift, with no obligation to return after making a profit because of information asymmetry which propagated that the money (YRF) is a compensation for the lost life of youth in revolution against the removed regime (TPLF). This prevalence challenges and the coincidence of the time of introduction of YRF scheme together with unnecessary intervention by third party (politicians) in approval of the fund to benefit their ties and relatives, made youth to perceive the fund as political kit given by government to youth to freeze action of Querro

(Youth). Moreover, the existence of excessive level of snowballing, in which group members assume government loans as grants and fail to repay because others were not perform their loan repayment and impairing sustainability to suffer. Furthermore, loss and damages of business due to political instability has affected loan repayment performance and sustainability of YRF. In addition to this, the interview result showed that interruption of business due to political strike has negatively affected the YRF loan repayment performance and its sustainability.

5.2. Recommendations

The government should analyses both negative and positive consequences of any decisions before publicizing it to not repeat similar problems occurred during YRF loan release. The government at different level of administration should create sufficient orientation/awareness to convince the public the benefits and disadvantages of particular project and reshape their perception before the release of the fund. Minimize unnecessary intervention by politician on fund approval as it creates negative public perception and endanger the loan repayment performance. Fund implementing bodies should be made responsible and accountable for release of asymmetric information and proliferation against the fund objective. Moreover, OCSSCO and government should provide continuous training; follow-up and monitoring to curb excessive level of snowballing that reduce the normal operation and repayment status of the fund loan. Furthermore, government should create promising environment for business to reduce loss and damages of business due to political instability and interruption of business due to political strike thereby increasing loan repayment performance and sustainability of YRF. The government should redesign alternative exit strategy(relief) for fund released on the first two years(2017 and 2018) as the problems of default was not only from the side of borrowers but also from government (specially at low level of administration) and was became one reason for migration and losses of life of many productive youths.

Finally, government should look alternative strategy of developing fewer policies and legislative documents to govern the implementation of Youth Revolving Fund and to ensure adequate accountability and long-term sustainability and create a public private partnership to implement and manage the fund keeping remote its hands from implementation of the fund.

5.3. Areas for further studies

The current study has some limitations that were not covered in this study but can be an opportunity for future research. Accordingly, the following is area of recommendation for further studies:

There is a need to do a comparative study on loan performance and the sustainability of YRF urban and rural beneficiaries.

5.4. Limitation of Study

Similar to any other studies, the current study is not free of limitations. The resistance to fill questionnaire by some respondents because of fear problems of COVID-19 and difficulty to get respondents in sample zones as they hide from the sight of government officials and OCSSCo employees or changed their living places to escape from loan repayments were among the major limitation of this study.

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Disclosures and Declarations

The authors have no financial and non-financial conflict regarding this manuscript and we confirm that it is our responsibility for any issue with regards.

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