Africa's Agro-Industrial Financing Gap



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Food & agribusiness specialists

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Introduction

For decades, the narrative surrounding African agriculture has been defined by the phrase "untapped potential", a term that has become as much a source of frustration as it is a statement of fact. While the continent possesses the natural resources to become a global agricultural powerhouse, the primary barrier to transformation has rarely been a lack of land, water, or labour. Rather, it has been the absence of a sophisticated engineering and financial structure capable of translating agricultural potential into institutional-grade assets.

As Africa navigates the transition from fragmented, donor-dependent pilot projects to large-scale public-private partnerships, governments, investors, and development finance institutions must build strategies that confront a list of hard questions: how can projects be structured to manage foreign exchange risk? What mechanisms can be used to tackle downstream liquidity constraints? What is the real financial impact of climate resilience and ESG considerations? And perhaps most fundamentally, why do 80% of infrastructure projects in Africa fail before reaching financial close.

In this series of articles, we seek to address these questions directly, offering practical frameworks for structuring agribusiness investments that can withstand the scrutiny of institutional due diligence. We argue that African agro-industrial projects must be "bankable by design", conceived from the outset around the underwriting criteria, risk allocations, and return mechanisms that investors require.

For institutional investors, development finance institutions, and policymakers engaged in Africa's agricultural transformation, these articles offer a strategic insight on deploying capital into one of the world's most compelling and challenging investment frontiers.

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BANKABLE BY DESIGN: A NEW PARADIGM FOR AFRICAN AGRO-INDUSTRIAL DEVELOPMENT

African agro-industrialisation is undergoing a structural shift. The legacy model, which was characterised by fragmented, donor-dependent pilot projects, is giving way to large-scale public-private partnerships designed to marry government policy ambitions with private sector capital and efficiencies.



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This transition demands a corresponding shift in how projects are conceived and structured. Where previous approaches prioritised "economic viability" as a broad developmental good, the emerging model requires an ability to generate secure cash flows and attract institutional capital.

The distinction is important; whereas previously a viable project may have been any project that demonstrated positive returns against a broad range of developmental criteria, such as job creation, import substitution, food security, and others, current requirements are much narrower, with projects increasingly viewed in financial terms.

This is a considerable challenge, as agro-industrial zones do not typically fall neatly under one ministry's remit. A single project might require input from agriculture, water, energy, transport, trade and

finance ministries as well as local government. Each of these bodies has its own priorities, budget cycles, approval processes, and political pressures.

Getting them to move in concert is extremely difficult and is often cited as the main reason why 80% of African infrastructure projects fail at the feasibility or business plan stage and less than 10% of them reach financial close. Similarly, these zones utilise both public goods and commercial assets, which must function as an integrated system to deliver value.

Currency mismatch compounds these challenges. Agro-industrial projects frequently generate revenue in local currency while carrying debt denominated in hard currency. Consequently, any depreciation of the local currency can render otherwise sound projects unviable.

Due to these structural complexities, the conventional project development approach, which tends to follow a concept-first, finance-later structure, will consistently fail to mobilise private capital. Unlike public sector funding approaches, banks and private equity underwrite downside control first, then assess upside potential. Projects conceived without this discipline carry risk allocations that institutional investors simply will not accept.

The ideal project development sequence begins with the underwriting criteria and in particular the returns, risk protections, and security mechanisms that investors will require to commit capital. From this starting point, project sponsors and advisers should work backward to clarify risk allocations, commercial structures, engineering designs, permits, and finally the capital stack. Embedding financial structuring in this way from day one surfaces problems early when they can still be addressed, rather than discovering fatal flaws after years of preparation.

Bankable design requires treating water, engineering, foreign exchange management, offtake arrangements, and exit mechanisms as integrated risks, and each element must be structured to meet investor requirements. For instance, water, energy, and raw material supply must be framed not in terms of their feasibility but in terms of their dependability. Investors and operators may require legally enforceable water entitlements, service level guarantees, and fallback arrangements.

Similarly, engineering must be designed to covenant. Lenders and investors will ultimately require performance guarantees: uptime, energy consumption rates, recovery rates, and system losses all need to be translated into contractual obligations within EPC and O&M agreements. Interface-related risks must also be unambiguous and clearly assigned, ideally with one contractor responsible for the entire system, including all internal interfaces. Where a single-contractor wrap is not possible, contracts should clearly define each party's responsibility at every interface point, with well-defined liquidated damages. Contingency measures and financing must also be embedded into the base financial model, rather than being viewed as optional add-ons which will likely be value-engineered out during cost-cutting stages. Foreign exchange exposure is a case in point: projects must embed indexation mechanisms, contingency liquidity facilities, and credit enhancements as core components.

Blended finance instruments can explicitly support this objective by deploying instruments like currency swaps, first-loss guarantees, subordinated debt, and junior equity. DFIs can dilute investor risks and create the kind of risk-return profiles that institutional investors will find acceptable.



The FX pressure inherent in African agribusiness investments



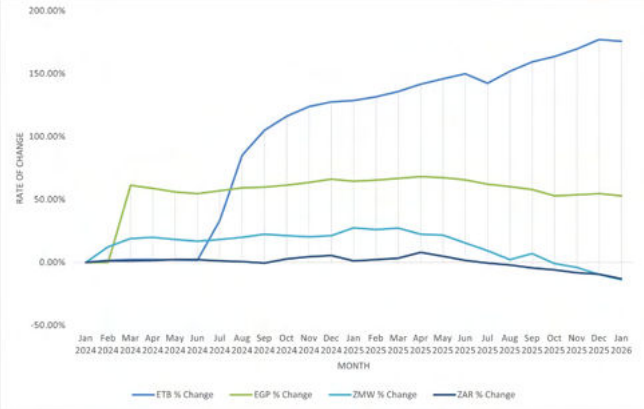
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Foreign exchange risk is one of the most critical structural vulnerabilities in African agribusiness investment. It has the capacity to completely undermine the viability of projects regardless of their underlying operational merit. The problem typically manifests where hard-currency capital expenditure, debt obligations and imported inputs such as equipment, agrochemicals, packaging and fuel are serviced by local-currency revenues, such as those from domestic food product sales. This is fundamentally a balance-sheet currency mismatch, which manifests as P&L volatility and debt-service stress during periods of depreciation and can also surface during ostensibly stable periods when returns are repatriated or external obligations serviced, reflecting the limited liquidity and wide bid-ask spreads characteristic of many African FX markets.

Recent currency movements underscore the acute nature of this exposure. Ethiopia's shift to a market-based exchange rate in July 2024 triggered sharp Birr depreciation of around 30%, while Zambia's Kwacha hit record lows in early 2025 amid drought-driven stress. Egypt's March 2024 exchange-rate adjustment saw

the Egyptian Pound slide from approximately EGP 30.8 per USD to around EGP 49.5–50 in a single session. Natural hedges through export revenues are arguably the simplest form of defence, with hard-currency sales counterbalancing hard-currency debt obligations and input costs, and this can also open venues for FX forwards and fixed-price offtakes.
However, in many African markets this solution is

CHART 1: SELECTED AFRICAN CURRENCIES 2024–2026



likely to encounter political and regulatory friction, as host nations will typically prioritise domestic food security. In practice, this often translates into outright export restrictions, mandated domestic allocations, price controls, export licensing delays, FX surrender or retention rules that limit how much export revenue can be held offshore or used freely for external obligations. As a result, projects whose pricing power is limited, particularly those selling staples into regulated domestic markets, cannot rely on exports to manage FX risks. One potential solution is to hard-wire two sales routes into the project structure: a domestic "food security" route, with baseline volumes contracted locally and prices indexed to inflation, alongside a flexible "FX" tranche that may be exported when FX conditions tighten. Critically, the relative sizing of these routes should not be left discretionary but determined upfront through financial sensitivities that explicitly test debt service capacity, DSCR headroom and equity returns under FX stress scenarios. By embedding a predetermined domestic-to-export sales ratio, calibrated through downside FX sensitivities rather than policy discretion, projects can demonstrate to lenders and policymakers alike that food security objectives are preserved while maintaining hard-currency resilience at the margin. This approach converts export flexibility from an ad hoc policy exception into a quantified risk-management tool embedded directly into the project's underwriting logic.

Similarly, operational levers such as localising inputs, improving yield and logistical efficiency, renegotiating supplier terms and utilising local or onsite renewable energy sources can reduce hard-currency outflows, but they do not eliminate the core mismatch. Long-term USD/EUR debt will require predictable hard-currency income streams for servicing unless the liability is hedged or refinanced into local currency.
For agribusiness operators who cannot pass foreign exchange costs through to consumers, the strategic imperative is to transfer the currency risk away from project companies to instruments or stakeholders with superior risk-bearing capacity and systems.

The most cost-effective solutions address currency mismatch at a structural or institutional level rather than leaving individual projects to bear retail hedging costs. For instance, the IFC's IDA Private Sector Window Local Currency Facility provides long-term local currency financing in markets where hedging alternatives are absent or severely limited. Similarly, local-currency syndications, where DFIs structure overlay swaps or hedged A-loan participations, enable projects to avoid bearing full retail hedging costs individually.

Naturally, local investors and domestic institutional capital can avoid FX pressures by maintaining local-currency positions on both sides of their balance sheets. However, unlocking this capital for agribusiness transformation or infrastructural projects often requires risk mitigation tools and credit enhancement mechanisms to bridge the gap between project risk profiles and institutional investment mandates. InfraCredit demonstrates how this model can work at scale: by guaranteeing repayment on infrastructure bonds, it has enabled issuances to achieve credit ratings Nigerian pension funds can legally invest in, mobilising over NGN 200 billion across long-term tenors in the process.

For agribusiness assets with infrastructure-like characteristics (cold-chain networks, storage facilities, processing plants, etc.), this model only becomes viable when combined with partial guarantees, robust offtake arrangements, and transparent reporting that meets the fiduciary and regulatory investment requirements of domestic institutional investors.

Where local FX markets cannot offer sufficient tenor, specialist platforms can bridge the gap. TCX, for example, provides non-deliverable cross-currency swaps and forwards to synthetically convert hard-currency loans into local-currency obligations; this included fixed-rate hedges that can extend to ~25 years. To protect margins, the most effective approach is typically layered: businesses hedge debt service rather than total revenues, concentrate cover on the capex drawdown period and peak-leverage years and pair derivatives with convertibility/transfer backstops, such as the EU's Transferability and Convertibility Facility or MIGA political risk coverage, to manage transferability risks as well as depreciation.

Ultimately, a workable project will require deliberate, tailored structuring that aligns asset design, merchandising strategy and risk-trading frameworks with transparent and credible risk-sharing across stakeholders. For investors, this is likely to involve quantifying the currency mismatch, maximising local-currency liabilities before relying on derivatives and then layering hedges to protect debt service and capex drawdowns, as well as an acceptance of capped or conditional export rights. DFIs can unlock scale by expanding local-currency syndications and deploying portfolio-based credit enhancements into productive sectors. Policymakers will need to develop predictable, rules-based trade and finance policies that deepen local-currency financing options and allow projects to plan merchandising, export optionality and FX risk management ex ante, while supporting vulnerable households without suppressing producer pricing.





AFRICA'S RETURN ON RESILIENCE

Disaster preparedness and resilience measures are frequently framed as ESG considerations, but they are also risk-management practices that can generate measurable financial returns via avoided losses, lower cash-flow volatility, and greater strategic optionality.



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Evidence of this resilience dividend is well established across various geographies and asset classes. For instance, the Global Commission on Adaptation found resilient infrastructure typically requires ~3% higher upfront capex, yet can deliver benefit–cost ratios approaching 4:1. The World Bank's Lifelines work reached similar conclusions, estimating that resilience "uplift", which accounted for ~3% of total investment, could generate more than USD 4.2 trillion over the assets' lifetimes, equating to roughly $4 of benefit per $1 invested. More recently, WRI analysis of 320 adaptation investments across 12 countries (USD ~133 billion in aggregate capital) reported returns exceeding $10 per $1 invested over a ten-year time horizon, with average returns around 27%.

Building resilience

In African markets, the case for front-loading investment in resilience is amplified by system interdependence. Infrastructure failures rarely stay local; they propagate across energy, water, and logistics networks and impact development projects and sovereigns in equal measure.



27%

Average ROI

Analysis of 320 adaptation investments shows that resilience measures can yield average returns of 27% over a ten-year horizon.

>15%

Capex Reduction

Shared last-mile infrastructure within programmatic models like trade corridors can lower per-project capital expenditure by up to a fifth.

4:1

Benefit-Cost Ratio

A modest ~3% increase in upfront investment for resilient infrastructure can deliver $4 in benefits for every $1 spent.

7 bps

Greenium Effect

Analysis of African debt markets suggests a modest pricing advantage for green or climate-aligned bonds achieve over conventional bonds.

For lenders and investors, all too often macro stress quickly becomes credit stress: fiscal pressure feeds currency depreciation, tariff arrears, offtaker credit deterioration, and ultimately DSCR compression. And so, building resilience credits protection against systemic failure chains, not simply as a sustainability overlay. The investment implication is simple: resilience spend should be underwritten not as defensive capex but as yield-enhancing infrastructure, reducing tail-risk exposure while improving risk-adjusted returns across the portfolio.

This shift from defensive spending to yield-enhancing infrastructure is most effectively realised through programmatic models such as agro-industrial zones and trade corridors.

By co-locating logistics, energy, and water infrastructure, projects achieve a clustering effect that typical greenfield sites lack. Data suggests that shared last-mile infrastructure can reduce per-project Capex by 15–20%. At the same time higher utilisation of common utilities and services lowers unit costs. Additionally, diversifying revenue streams across crops, seasons, and offtakers dampens the cash-flow volatility and reduces downside tail risk, which can constrain leverage capacity in single-asset ventures.

Financing resilience

Another key advantage of the programmatic agro-industrial zone model is its ability to allow for the securitisation of agricultural assets and thereby unlock capital markets. By creating the scale, performance history, enforceable contracts, and transaction volumes required for securitisation.
In practice, this can be executed through portfolio bond structures, where an SPV acquires or controls a diversified pool of operating cash flows and issues tranched notes under a defined payment waterfall. Senior tranches can achieve investment grade through credit enhancement (e.g., reserve accounts, overcollateralisation, guarantees/PRI wraps, and robust covenants).

A second pathway is receivables and future-flow securitisation, anchored in collateralised trade and production instruments such as warehouse receipts and crop delivery contracts. Where secured payment obligations linked to crop delivery can be structured into transferable debt instruments and bundled into diversified pools via an SPV or similar vehicle that holds the pool and issues securities against it.

Selling resilience

“Climate-smart” or “green” labelling can deliver modest, measurable pricing benefits. EIB analysis of African debt markets suggests a “greenium” of around 7 bps over longer horizons when comparing green versus comparable non-green issuance by African supranational borrowers. However, labels cannot compensate for weak fundamentals. Credible climate-smart bond structures usually require DFI anchor capital, guarantee facilities, PRI targeted at specific sovereign risks, and robust use-of-proceeds controls.

Accordingly, the “green” label only becomes investable when the underlying programme is structured for capital markets from day one. These programmes should embed standardised contracts, built-in MRV, and securitisation readiness (data rooms, servicing, and reporting). In valuation terms, any greenium should be considered as a marginal tailwind rather than a step-change in project economics. The more material benefits are typically tenor extension, improved refinancing optionality, and access to a broader pool of ESG-mandated allocators, provided the structure delivers DSCR stability, robust covenants, and credible governance around use of proceeds and proceeds allocation.



Addressing Africa's liquidity crisis

Africa's agrifood liquidity challenge is commonly misdiagnosed. Whilst much attention focuses on farmer productivity and collateral constraints, working-capital risk is frequently concentrated downstream.



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Processors, marketing boards, and government ministries, often the sole route to market, are thinly capitalised or fiscally constrained. When these buyers pay late, suppliers become involuntary lenders, destroying cash conversion cycles throughout the value chain.

South Africa's National Treasury has documented hundreds of thousands of invoices paid beyond 30 days, explicitly noting the damage to supplier financial health. This matters fundamentally because lenders underwrite cash flow certainty: if the offtaker is weak, project receivables are weak, regardless of producer efficiency.

Reverse factoring, or buyer-led supply chain finance, offers a potential solution. The mechanism is straightforward: a buyer approves an invoice, a financier pays the supplier early at a discount, and the buyer subsequently pays the financier at maturity. Critically, credit risk "moves" to the buyer. Development bank guidance is explicit: the credit risk profile is based on the account debtor's creditworthiness, not the producer's. However, reverse factoring is not a tool to rehabilitate weak buyers. It's a tool that works

when buyers are already creditworthy. For African supply chains where the bottleneck is often unreliable or undercapitalised offtakers, this may represent a structural limitation rather than a solution.

Reverse factoring works where offtakers are investment-grade multinationals or top-tier regional champions, allowing suppliers to access lower-cost financing based on superior buyer credit. It works where large buyers maintain disciplined invoice approval, with standardised processes, rapid dispute resolution, and consistent payment behaviour.

Conversely, reverse factoring fails predictably in three scenarios: where state-owned enterprises or government buyers carry arrears risk and can delay payment without consequence; where undercapitalised local processors exhibit thin margins, foreign exchange exposure, and weak governance; and where informal or spot-market farmgate procurement lacks the documentation and confirmed receivables reverse factoring requires.

Africa accounts for only 2.4% (approximately USD 60 billion) of the USD 2.462 trillion global supply chain finance market, However, Africa's supply chain finance market grew 14–15% between 2023 and 2024, demonstrating rapid growth from a small base. Africa's ability to sustain this growth will be contingent on:

- Anchor quality: The creditworthiness of buyers
- Enforceability: Whether payment obligations can be compelled through legal or commercial mechanisms
- Accountability: The system needs to document transactions, verify receivables, and process payments reliably

Some workarounds exist where these conditions can't be met. For instance, PRI can be used to transfer risk to an insurer, where a public entity offtaker might otherwise present an unacceptable payment risk. This enables financiers to participate in supply chain finance arrangements they might otherwise reject. Typical structures include insured receivables discounting, facility-level PRI wraps, or blended guarantee stacks combining partial credit guarantees with sovereign risk coverage. However, it is worth noting that this coverage still requires clear, unconditional payment obligations and robust documentation, and so it still requires sound fundamentals.

Ultimately, any model designed to pull credit upstream and benefit smallholders and small suppliers will require careful and deliberate structuring. In an African context, key challenges will include developing a two-step architecture explicitly designed to firstly, monetise approved receivables at the aggregator/processor level against an investment-grade anchor buyer (or a credit-enhanced public off-taker), and secondly, translate that liquidity into a dedicated upstream farmer-finance layer. This layer will likely include input finance, pre-harvest advances, and rapid payout mechanisms.

Overcoming this "last-mile" constraint beyond the aggregator level will also require technical and legal plumbing: bankable procurement contracts, clear title and delivery terms, enforceable receivables assignment, disciplined invoice/acceptance workflows (ideally digitised), and, where feasible, collateral frameworks such as inventory controls or warehouse-receipt-style structures to reduce fraud and double financing.

In practical terms, this means developing pre-harvest instruments that are underwritten on cash flow and performance rather than land title and pairing them with operating models that allow farmers and aggregators to gauge expected yield, quality, the probability of delivery, price downside, and side-selling risk before capital is advanced. Doing that at scale typically requires a mix of structured offtake commitments, transparent grading and weighing protocols, and data-backed risk scoring mechanisms (e.g., agronomic records, historical deliveries, and basic geospatial yield proxies), so the upstream facility behaves less like unsecured lending and more like a controlled way to unlock low-cost liquidity.

The exit architecture for private equity in African agribusiness



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Investors in Africa's agribusiness sector face a strange paradox. On one hand, the macroeconomic drivers for capital allocation are strong. Shifting dietary preferences toward higher protein consumption, a rapidly growing population, and an urgent need for climate-resilient food systems all create a compelling demand-side thesis. However, the supply of institutional capital, particularly from pension funds, insurance companies, and sovereign wealth funds, remains low.

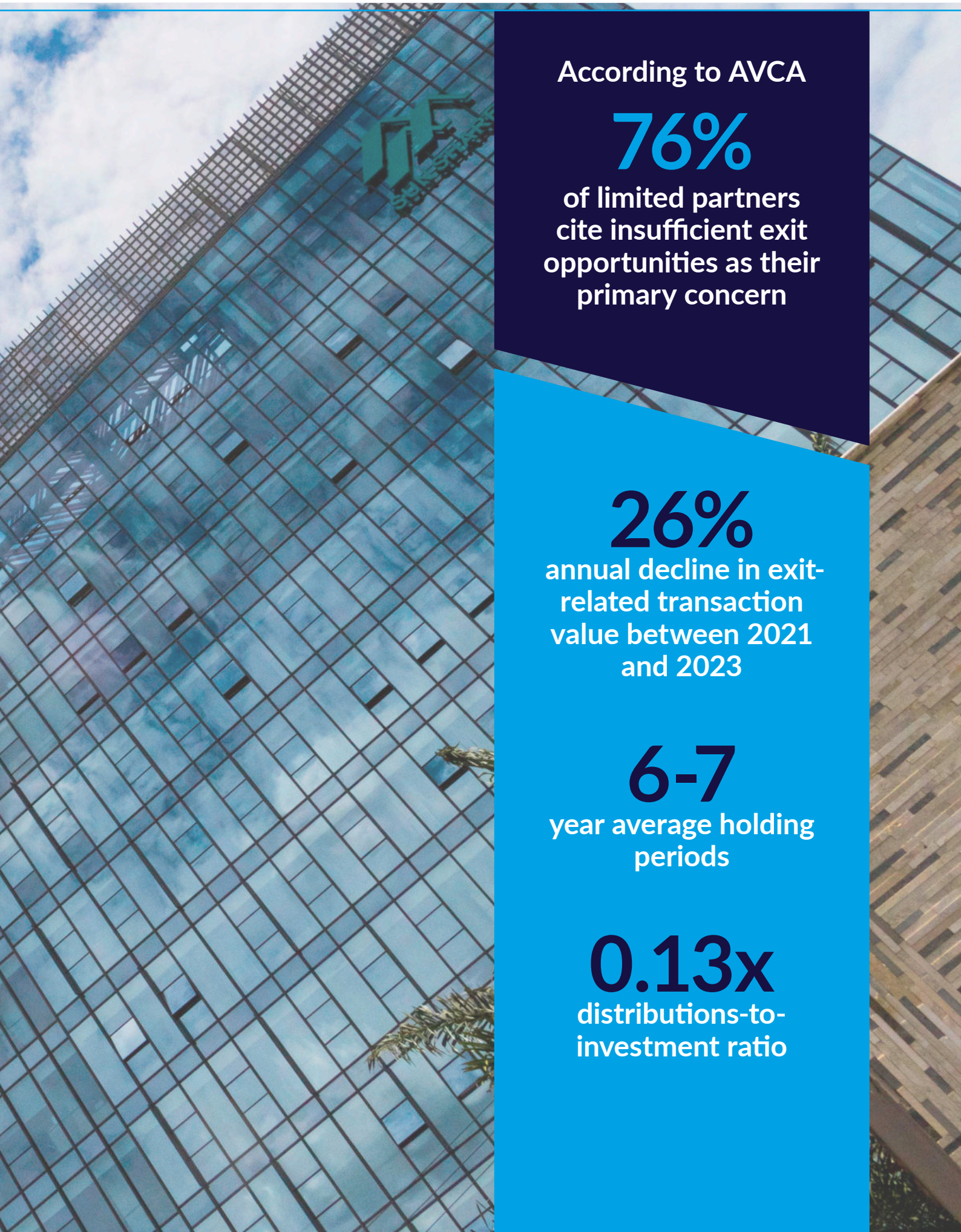
Our research reveals that one of the primary deterrents preventing these investors from entering the sector is not a production risk or even a political risk, but rather, it is the structural risk of illiquidity.

Others have reached the same conclusion; AVCA data reveals that 76% of limited partners cite insufficient exit opportunities as their primary concern. For investment committees evaluating market exposure, the question is not whether African agribusiness holds return potential; it is whether capital can be returned within an acceptable fund life and with sufficient predictability. This has created a significant barrier to entry whereby institutional investors avoid committing capital precisely because they cannot see how to extract it at maturity.

They may have a point. Africa's exit challenges are multidimensional. Unlike in more developed markets, Africa's secondary markets are thin and generally avoid pure-play agriculture due to its volatility.

The numbers paint a sobering picture.

- A 26% annual decline in exit-related transaction value between 2021 and 2023 has created a growing inventory of unrealised positions in ageing funds
- Average holding periods have stretched to six or seven years, exceeding international benchmarks
- Africa's distributions-to-investment ratio languishes at 0.13x compared to 0.60x–0.80x in mature market



According to AVCA

76%

of limited partners cite insufficient exit opportunities as their primary concern

26%

annual decline in exit-related transaction value between 2021 and 2023

6-7

year average holding periods

0.13x

distributions-to-investment ratio

Each of these figures reinforces perceptions of the sector as a capital trap. At the same time, FX risks can mean that even a successful exit in local currency may translate into a loss in hard currency due to depreciation.

It is also worth noting that these deterrents are only magnified when agribusiness is compared to other asset classes. In sectors like fintech, the exit path is more defined and established, as rapid growth frequently leads to acquisition by a global player or an IPO.

Agribusiness investments in general, and African ones in particular, lack an equivalent model. Agribusiness assets are heterogeneous, biologically sensitive, and location-specific, meaning a successful exit often requires finding a buyer interested in that particular crop or vertical and in that particular geography within a narrow exit window.

What's more in agribusiness additional timing constraints often exist which are rarely found in other asset classes. For instance, fund managers will typically wait for a market window where valuations are high and interest rates are low before they sell, to maximise returns on exit. However, in an agribusiness environment, global commodity prices, input cost shocks, buyer availability, harvest cycles, and policy shifts may also have a determining effect on both the timing and feasibility of a sale.

A further disconnect exists between valuation methodologies. Private equity funds typically report using NAVs, often using discounted cash flow models based on optimal yields. However, trade buyers tend to heavily discount for weather risk, infrastructural deficits, and political instability; this can create a powerful barrier to sale.

Rethinking the exit strategy

Traditional exit mechanisms, such as trade sales, IPOs, and secondary buyouts, remain concentrated and constrained in African markets. IPOs only account for marginal value, and although sponsor-to-sponsor transactions can execute at scale, they depend on a thin pool of buyers. Permanent capital vehicles may provide exit opportunities for sellers, but they often trade at significant discounts to net asset values and impose onerous reporting and governance obligations.

The fundamental limitation of these approaches is their overreliance on an exit that may never materialise under favourable conditions, and so breaking this cycle may well require instruments that prioritise returning capital during the investment lifecycle rather than through a single realisation event at maturity. Self-liquidating structures such as revenue-based finance, redeemable equity, mezzanine debt and private credit offer precisely this ability.

- **Revenue-based finance** ties repayments to a fixed percentage of gross revenues until a determined multiple is reached, allowing investors to recoup capital as the enterprise generates cash.
- **Redeemable equity** provides the investor with preferred shares structured with contractual redemption rights triggered by performance milestones or time-based schedules.
- **Mezzanine debt** and private credit structures can be designed with amortising principals and cash-sweep mechanisms that return capital progressively. By structuring warrants in this way, investors can secure a baseline exit while still retaining some upside.

For institutional investors considering African agribusiness, the strategic logic is straightforward; capital, or at least a portion of it, needs to return incrementally and not entirely on exit. The sector's fundamentals remain attractive, but illiquidity risk continues to suppress capital flows.

Fund managers who design instruments with built-in liquidity mechanisms can significantly outperform a market where liquidity risk dominates allocation decisions. Development finance institutions and blended finance providers can play a catalytic role by providing these structures at scale and creating templates for commercial capital to follow.

Africa's agribusiness sector does not lack opportunity. It lacks a suitable capital return mechanism, and building that architecture may be the single most important step toward unlocking the institutional capital on the continent.

With offices in Africa, Europe, North America, and the Middle East, Farrelly Mitchell is uniquely positioned to support public and private industry stakeholders at a global level.

We understand that every agrifood project presents its own unique set of commercial, economic, and environmental challenges, and our global presence enables us to address these challenges effectively, taking regional and local contexts into careful consideration.

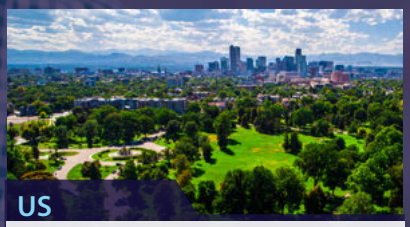
Our consultants hold deep knowledge of the entire agricultural value chain, from farm to fork. With this, we can support clients throughout the industry as they look to optimise supply chains, build better safety and monitoring mechanisms, and adopt more responsible and sustainable practices that align with the best industry standards. To discover how we can help your organisation deliver measurable results speak to our team today.



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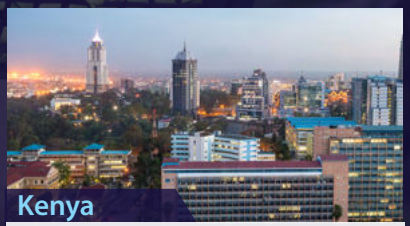
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