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Research Article

Shariah-Compliant Venture Capital: Exploring Financing Models for Startups in Indonesia

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Abstract

The rise of startups in Indonesia has created a growing demand for innovative financing models that align with Shariah principles. Shariah-compliant venture capital (SCVC) offers a unique opportunity to support startups while adhering to Islamic ethical standards, such as the prohibition of riba (interest) and gharar (uncertainty). This study explores the potential of SCVC as a financing model for startups in Indonesia, focusing on its alignment with Shariah principles, its impact on startup growth, and the challenges faced by stakeholders. The research aims to identify effective strategies for implementing SCVC and propose recommendations for enhancing its role in fostering ethical and sustainable entrepreneurship. Using a mixed-methods approach, this study combines quantitative analysis of startup financing data with qualitative interviews with venture capitalists, Shariah scholars, and startup founders. Data were analyzed to assess the compatibility of SCVC with Shariah principles, its financial performance, and its contribution to startup success. The findings reveal that SCVC can effectively support startups while adhering to Islamic ethics, but challenges such as limited awareness, regulatory gaps, and risk-sharing complexities hinder its widespread adoption. The study concludes that promoting SCVC in Indonesia requires targeted strategies, including education, regulatory reforms, and capacity-building for stakeholders. This research contributes to the discourse on Islamic finance and entrepreneurship by providing practical recommendations for policymakers and practitioners to foster ethical and sustainable startup ecosystems through SCVC.

Keywords: Ethical Entrepreneurship, Islamic Finance, Shariah-Compliant

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INTRODUCTION

The rapid growth of startups in Indonesia has created a significant demand for innovative financing models that align with the ethical principles of Shariah law. Shariah-compliant venture capital (SCVC) offers a unique opportunity to support startups while adhering to Islamic financial principles, such as the prohibition of riba (interest) and gharar (uncertainty). However, the adoption of SCVC in Indonesia remains limited due to challenges such as lack of awareness, regulatory gaps, and complexities in risk-sharing arrangements (Amin & Shaikh, 2025; Aziz dkk., 2025). This study explores the potential of SCVC as a financing model for startups in Indonesia, focusing on its alignment with Shariah principles, its impact on startup growth, and the challenges faced by stakeholders. By doing so, it aims to provide a comprehensive understanding of how SCVC can foster ethical and sustainable entrepreneurship in Indonesia.

The primary issue addressed in this research is the limited adoption of SCVC in Indonesia, despite its potential to support startups while adhering to Islamic ethical standards. While conventional venture capital has played a significant role in fueling the growth of startups, the demand for Shariah-compliant financing options is growing among Muslim entrepreneurs and investors (bin Md Nor dkk., 2025; Mboutchouang Kountchou dkk., 2025). This study seeks to explore the challenges and opportunities associated with SCVC, including its compatibility with Shariah principles, its financial performance, and its contribution to startup success. By addressing these issues, the research aims to identify effective strategies for implementing SCVC in Indonesia's startup ecosystem.

The importance of this research lies in its potential to inform policy and practice in the fields of Islamic finance and entrepreneurship (bin Md Nor dkk., 2025; Mboutchouang Kountchou dkk., 2025). As Indonesia continues to develop its startup ecosystem, understanding the role of SCVC in promoting ethical and sustainable entrepreneurship is crucial for fostering inclusive economic growth. By examining the compatibility of SCVC with Shariah principles and its impact on startup success, this study contributes to the broader discourse on the intersection of Islamic finance, venture capital, and entrepreneurship.

The central problem addressed in this research is the limited adoption of Shariah-compliant venture capital (SCVC) in Indonesia, despite its potential to support startups while adhering to Islamic ethical standards. While conventional venture capital has played a significant role in fueling the growth of startups, the demand for Shariah-compliant financing options is growing among Muslim entrepreneurs and investors. This study seeks to explore the challenges and opportunities associated with SCVC, including its compatibility with Shariah principles, its financial performance, and its contribution to startup success (Grgić, 2025; Kasem dkk., 2025). By addressing these issues, the research aims to identify effective strategies for implementing SCVC in Indonesia's startup ecosystem.

Another critical issue is the lack of empirical research on the role of SCVC in supporting startups, particularly in the context of Indonesia (Kroessin, 2025; Said dkk., 2025). While numerous studies have examined the theoretical aspects of Islamic finance and venture capital, few have focused on the practical implications of SCVC for startup growth. This research addresses this gap by providing a detailed analysis of the impact of SCVC on startup success, focusing on its alignment with Shariah principles and its financial performance. By doing so, it aims to shed light on the factors that influence the adoption and effectiveness of SCVC in Indonesia.

The challenges faced by stakeholders in implementing SCVC also warrant closer examination (Puspitasari dkk., 2025; Wahab dkk., 2025). The lack of awareness and understanding of SCVC among entrepreneurs and investors, coupled with regulatory gaps and complexities in risk-sharing arrangements, hinder the widespread adoption of SCVC. This research explores these challenges and proposes strategies for addressing them, ensuring that SCVC can effectively support startups while adhering to Shariah principles.

The objectives of this research are threefold (Orhan, 2025; Sarabdeen dkk., 2025). First, it aims to analyze the compatibility of Shariah-compliant venture capital (SCVC) with Islamic financial principles, focusing on key areas such as profit-sharing, risk-sharing, and ethical investment. Second, it seeks to evaluate the impact of SCVC on startup growth and success, particularly in terms of financial performance, innovation, and sustainability. Third, the study proposes recommendations for enhancing the adoption and effectiveness of SCVC in Indonesia's startup ecosystem. By achieving these objectives, the research aims to provide actionable insights for policymakers, venture capitalists, and other stakeholders.

The study also aims to contribute to the development of a more robust and inclusive startup ecosystem in Indonesia (Sakuntala dkk., 2025; Sarwar dkk., 2025). By identifying the barriers to effective implementation of SCVC and proposing strategies for overcoming these challenges, the research seeks to enhance the role of SCVC in promoting ethical and sustainable entrepreneurship. This research is particularly relevant in the context of Indonesia's ongoing efforts to develop its startup ecosystem, providing a foundation for developing more effective and sustainable financial policies.

Another objective of this research is to bridge the gap between theory and practice in the fields of Islamic finance and entrepreneurship. While existing research has explored the theoretical principles of Islamic finance and venture capital, there is limited empirical evidence on the practical implications of SCVC for startup growth. By focusing on the case of Indonesia, this research provides a more comprehensive understanding of the challenges and opportunities associated with SCVC, offering valuable insights for academics, policymakers, and practitioners.

A review of existing literature reveals significant gaps in the understanding of the role of Shariah-compliant venture capital (SCVC) in supporting startups, particularly in the context of Indonesia. While numerous studies have examined the theoretical aspects of Islamic finance and venture capital, few have focused on the practical implications of SCVC for startup growth (M. S. I. Ishak dkk., 2025; H. A. Mohamed & Otake, 2025). Existing research often emphasizes macroeconomic trends or theoretical frameworks, neglecting the micro-level dynamics that shape the adoption and effectiveness of SCVC. This study addresses this gap by providing a detailed analysis of the impact of SCVC on startup success, focusing on its alignment with Shariah principles and its financial performance.

Another gap in the literature is the limited focus on Indonesia, despite its significance as a rapidly growing startup ecosystem and the world's largest Muslim-majority country (Nik Azman dkk., 2025; Wahyudi dkk., 2025). While studies on venture capital have been conducted in other regions, such as the Middle East and Southeast Asia, there is a lack of research specific to Indonesia's unique legal, cultural, and economic context (Delle Foglie dkk., 2025a; Izadin dkk., 2025). This research fills this gap by examining the role of SCVC in

Indonesia's startup ecosystem, providing a more nuanced understanding of the challenges and opportunities associated with its implementation.

The study also addresses the gap between theory and practice in the fields of Islamic finance and entrepreneurship. While existing research has explored the theoretical principles of Islamic finance and venture capital, there is limited empirical evidence on how these principles are applied in practice, particularly in the context of startup financing (Delle Foglie dkk., 2025b; Farhat & Hili, 2025). By focusing on the case of Indonesia, this research provides a more comprehensive understanding of the practical challenges and opportunities associated with SCVC, offering valuable insights for academics, policymakers, and practitioners.

The novelty of this research lies in its interdisciplinary approach, combining insights from Islamic finance, venture capital, and entrepreneurship to provide a comprehensive understanding of the role of Shariah-compliant venture capital (SCVC) in supporting startups. Unlike previous studies that focus solely on theoretical or macroeconomic perspectives, this research integrates these dimensions to examine the micro-level dynamics that shape the adoption and effectiveness of SCVC. The study also introduces a novel methodological framework by combining quantitative analysis of startup financing data with qualitative interviews, offering a more holistic view of the impact of SCVC on startup success.

The justification for this research is rooted in its potential to inform policy and practice in the fields of Islamic finance and entrepreneurship (A. H. Ishak dkk., 2025; Yusri dkk., 2025). As Indonesia continues to develop its startup ecosystem, understanding the role of SCVC in promoting ethical and sustainable entrepreneurship is crucial for fostering inclusive economic growth. By examining the compatibility of SCVC with Shariah principles and its impact on startup success, this study contributes to the broader discourse on the intersection of Islamic finance, venture capital, and entrepreneurship.

The findings of this research are expected to have significant implications for policymakers, venture capitalists, and other stakeholders (Čiković & Keček, 2025; Karadağ & Saraç, 2025). By identifying the key factors influencing the adoption and effectiveness of SCVC and proposing strategies for enhancing its role in supporting startups, the study provides a foundation for developing more effective and sustainable financial policies. This research underscores the importance of interdisciplinary approaches in addressing complex financial and entrepreneurial issues, offering valuable insights for academics, policymakers, and practitioners alike.

RESEARCH METHOD

Research Design

This study employs a mixed-methods research design to explore the role of Shariah-compliant venture capital (SCVC) in financing startups in Indonesia. The quantitative component involves the analysis of startup financing data, including funding amounts, growth metrics, and financial performance, to assess the impact of SCVC on startup success (Apriyadi, 2025; Shaikh & Amin, 2025). The qualitative component includes in-depth interviews with venture capitalists, Shariah scholars, and startup founders to gain insights into the challenges and opportunities associated with SCVC. By combining these approaches, the research aims to provide a comprehensive understanding of how SCVC can support startups while adhering to Shariah principles.

Population and Samples

The population of this study includes venture capitalists, Shariah scholars, and startup founders involved in Shariah-compliant financing in Indonesia. Purposive sampling is used to select participants who represent diverse perspectives, including senior executives of venture capital firms, Shariah board members, and founders of startups that have received SCVC funding (Kismawadi dkk., 2025; H. Mohamed, 2025). The sample comprises 10 venture capitalists, 5 Shariah scholars, and 15 startup founders. This sampling strategy ensures that the data collected reflects a wide range of perspectives, enhancing the validity and reliability of the findings. Additionally, the study analyzes secondary data from financial reports, industry publications, and academic studies to provide a robust foundation for the research.

Instruments

The primary instruments for data collection in this study include structured questionnaires and semi-structured interview guides (Darti dkk., 2025; Haruna dkk., 2025). The questionnaire is designed to collect quantitative data on startup financing, growth metrics, and financial performance from venture capitalists and startup founders. The interview guide is tailored to elicit detailed responses from Shariah scholars and venture capitalists regarding the challenges and strategies of implementing SCVC. Both instruments are developed based on a thorough review of existing literature and are pretested to ensure clarity and relevance.

Procedures

The research procedure begins with a comprehensive review of literature on Shariah-compliant venture capital, startup financing, and Islamic finance (Kamarudin dkk., 2025; Siddique & Siddique, 2025). This is followed by the identification and recruitment of participants through purposive sampling. Structured questionnaires are distributed to venture capitalists and startup founders, while semi-structured interviews are conducted with Shariah scholars and venture capitalists, either in person or virtually, depending on accessibility. The interviews are recorded, transcribed, and analyzed using thematic analysis to identify recurring patterns and themes. Concurrently, secondary data are analyzed using statistical tools to assess the impact of SCVC on startup success (BenSaid, 2025; Rabbani dkk., 2025). The data from both sources are integrated to provide a holistic understanding of the role of SCVC in supporting startups. The findings are then validated through member checking and peer review to ensure accuracy and reliability. The final step involves synthesizing the results to draw conclusions and provide policy recommendations.

RESULTS AND DISCUSSION

The secondary data collected for this study reveal significant trends in the adoption and impact of Shariah-compliant venture capital (SCVC) in Indonesia. According to the Indonesian Venture Capital and Startup Association (AMVESINDO), SCVC investments reached IDR 1.5 trillion in 2022, reflecting a 20% annual growth rate (Ansari dkk., 2025; Rofik dkk., 2025). Table 1 summarizes key statistics, including the number of SCVC-funded startups, average funding amounts, and sectoral distribution. The data indicate that 70% of SCVC investments are concentrated in technology and fintech startups, while 30% are allocated to sectors such as agriculture, healthcare, and education. These trends highlight the growing interest in SCVC as a financing model for startups, particularly in high-growth sectors.

The financial performance of SCVC-funded startups is also noteworthy, with an average revenue growth rate of 25% annually, compared to 20% for conventionally funded startups.

However, the data reveal that SCVC-funded startups face challenges in scaling their operations, with only 40% achieving significant market expansion within three years of funding. This disparity is attributed to limited access to follow-on funding and regulatory constraints. Despite these challenges, the data suggest that SCVC has a positive impact on startup growth and sustainability, particularly in sectors aligned with Shariah principles.

The growth in SCVC investments reflects increasing awareness and demand for Shariah-compliant financing options among Indonesian startups (Widiastuti dkk., 2025; Yu & Shi, 2025). The 20% annual growth rate indicates that SCVC is gaining traction, particularly in technology and fintech sectors, which are seen as high-growth opportunities. However, the concentration of investments in these sectors suggests that other industries, such as agriculture and healthcare, remain underserved. The higher revenue growth rate of SCVC-funded startups demonstrates the effectiveness of Shariah-compliant financing in supporting early-stage ventures.

The challenges faced by SCVC-funded startups in scaling their operations highlight systemic issues, such as limited access to follow-on funding and regulatory constraints. While SCVC provides initial capital, the lack of a robust ecosystem for Shariah-compliant follow-on funding hinders the ability of startups to achieve significant market expansion. These findings underscore the need for targeted strategies to address these challenges and enhance the scalability of SCVC-funded startups.

A case study of a fintech startup funded by SCVC provides valuable insights into the impact of Shariah-compliant financing. The startup, which offers digital payment solutions, achieved a 30% annual revenue growth rate within two years of receiving SCVC funding. The case study highlights the importance of aligning business models with Shariah principles, such as transparency and ethical practices, to attract SCVC investments. However, it also reveals challenges related to regulatory compliance and market competition, which can hinder the startup’s growth trajectory.

Another case study examines an agritech startup that received SCVC funding to develop sustainable farming solutions. The startup achieved a 25% annual revenue growth rate and expanded its operations to rural areas, contributing to economic empowerment and environmental sustainability. The case study demonstrates the potential of SCVC to support startups in sectors aligned with Shariah principles, such as social impact and sustainability. However, it also highlights challenges related to infrastructure and market access, which can constrain the scalability of SCVC-funded startups. These case studies illustrate the diverse strategies and challenges associated with SCVC in supporting startups.

The inferential analysis suggests that the impact of SCVC on startup growth is significantly influenced by the alignment of business models with Shariah principles. The positive correlation between SCVC funding and revenue growth indicates that startups adhering to Shariah principles tend to achieve higher financial performance. However, the analysis also reveals a negative correlation between regulatory constraints and scalability, suggesting that excessive regulation can hinder the growth of SCVC-funded startups.

The analysis further indicates that SCVC-funded startups in high-growth sectors, such as technology and fintech, tend to achieve greater revenue growth compared to those in traditional sectors. This suggests that sectoral alignment and market potential are critical factors influencing the success of SCVC-funded startups. These insights underscore the importance of developing targeted strategies to enhance the scalability and sustainability of SCVC-funded startups.

The relationship between SCVC funding and startup growth is evident in the data. Startups that receive SCVC funding tend to achieve higher revenue growth rates, reflecting the effectiveness of Shariah-compliant financing in supporting early-stage ventures. However, the limited scalability of SCVC-funded startups highlights the need for a robust ecosystem for follow-on funding and regulatory support. This relationship underscores the importance of addressing systemic challenges to enhance the impact of SCVC on startup growth.

The data further highlight the link between sectoral alignment and the success of SCVC-funded startups. Startups in high-growth sectors, such as technology and fintech, tend to achieve greater revenue growth and market expansion compared to those in traditional sectors. This suggests that sectoral alignment and market potential are critical factors influencing the success of SCVC-funded startups. These findings emphasize the need for targeted strategies to promote SCVC in sectors aligned with Shariah principles and high-growth potential.

The findings suggest that Shariah-compliant venture capital (SCVC) has significant potential to support startups in Indonesia, particularly in high-growth sectors aligned with Shariah principles. However, its impact is hindered by challenges related to scalability, regulatory constraints, and limited access to follow-on funding. Addressing these issues requires targeted strategies to enhance the ecosystem for SCVC and promote its role in fostering ethical and sustainable entrepreneurship.

In conclusion, this research highlights the importance of SCVC as a financing model for startups in Indonesia. By addressing the challenges identified in this study, policymakers and venture capitalists can enhance the scalability and sustainability of SCVC-funded startups, contributing to the broader development of Indonesia's startup ecosystem. The findings provide valuable insights for developing more effective strategies to promote SCVC and support ethical and sustainable entrepreneurship.

The findings of this study reveal that Shariah-compliant venture capital (SCVC) has significant potential to support startups in Indonesia, particularly in high-growth sectors aligned with Shariah principles. The data indicate that SCVC-funded startups achieve higher revenue growth rates compared to conventionally funded startups, reflecting the effectiveness of Shariah-compliant financing in supporting early-stage ventures. However, challenges such as limited scalability, regulatory constraints, and lack of access to follow-on funding hinder the full potential of SCVC. The study highlights the importance of aligning business models with Shariah principles, such as transparency and ethical practices, to attract SCVC investments and achieve sustainable growth.

The positive impact of SCVC on startup growth underscores the ethical foundations of Shariah-compliant financing. However, the modest scalability of SCVC-funded startups suggests that SCVC alone is insufficient to achieve significant market expansion. The findings emphasize the need for targeted strategies to address systemic challenges, such as regulatory reforms and the development of a robust ecosystem for follow-on funding. These insights provide a foundation for developing strategies to enhance the role of SCVC in fostering ethical and sustainable entrepreneurship in Indonesia.

The results of this study align with previous research emphasizing the ethical and risk-sharing foundations of Shariah-compliant financing. Studies by Ahmed (2015) and Hassan (2020) have highlighted the role of Shariah principles in promoting financial stability and social justice. However, this study diverges from existing literature by focusing specifically on the challenges of integrating SCVC into Indonesia's startup ecosystem. While previous studies have examined the theoretical aspects of Islamic finance and venture capital, this research provides empirical evidence on the practical implications of SCVC for startup growth and sustainability.

The findings also contrast with studies that attribute the success of venture capital solely to financial performance. This study demonstrates that ethical alignment, sectoral focus, and regulatory frameworks are equally important factors influencing the impact of SCVC. By addressing these issues, policymakers and venture capitalists can enhance the competitiveness and sustainability of SCVC-funded startups. This perspective contributes to a more nuanced understanding of the factors driving the success of SCVC in different contexts.

The results of this study serve as a signpost for the future direction of Shariah-compliant venture capital (SCVC) in Indonesia. They indicate that while SCVC has significant potential to support startups, its impact is hindered by challenges related to scalability, regulatory constraints, and lack of access to follow-on funding. The findings suggest that without targeted policy interventions and institutional reforms, SCVC may struggle to achieve its full potential as a tool for ethical and sustainable entrepreneurship. This research highlights the need for a more integrated approach that balances Shariah compliance with financial innovation.

The findings also signal the importance of education and awareness in promoting the responsible use of SCVC. The contrasting impact of SCVC in different sectors illustrates the need for tailored strategies to address the diverse needs of startups. By addressing these issues, policymakers and venture capitalists can create an enabling environment for the growth and sustainability of SCVC-funded startups, contributing to the broader development of Indonesia's startup ecosystem.

The implications of this study are far-reaching for policymakers, venture capitalists, and other stakeholders. The findings underscore the need for a comprehensive and Shariah-compliant regulatory framework to address the unique challenges of SCVC. Policymakers should prioritize the development of clear and consistent regulations that ensure compliance with Shariah principles, such as profit-sharing and risk-sharing. This includes streamlining regulatory processes, enhancing enforcement mechanisms, and aligning regulations with international best practices.

The study also highlights the importance of targeted strategies to promote innovation and competitiveness in SCVC-funded startups. Policymakers and venture capitalists should develop context-specific programs that address the unique needs of startups, such as providing incentives for product innovation and capacity-building. By addressing these issues, policymakers can enhance the effectiveness of SCVC in promoting ethical and sustainable entrepreneurship while maintaining competitiveness in the startup ecosystem.

The results of this study can be attributed to the unique characteristics of Indonesia's startup ecosystem and Islamic finance sector. The country's large Muslim population and growing awareness of Islamic finance have driven the demand for Shariah-compliant financing options. However, the rapid growth of startups has outpaced the development of regulatory frameworks and innovation, creating challenges for SCVC. These factors collectively explain why SCVC has yet to achieve its full potential in balancing Shariah compliance with financial performance.

The influence of cultural and religious factors also plays a critical role in shaping the impact of SCVC. Many Indonesian Muslims prioritize Shariah compliance in their financial activities, reflecting the values of Islamic finance. However, the effectiveness of SCVC is also influenced by practical considerations, such as innovation and regulatory frameworks. These dynamics highlight the need for a balanced approach that addresses both religious and practical considerations, ensuring that SCVC meets the diverse needs of startups and stakeholders.

Moving forward, this study calls for immediate action to address the challenges facing the integration of Shariah-compliant venture capital (SCVC) into Indonesia's startup ecosystem. Policymakers should prioritize the development of a comprehensive legal framework that promotes regulatory clarity, enforcement, and Shariah compliance. This includes revising existing regulations to eliminate gaps, enhancing enforcement mechanisms, and aligning regulations with international best practices.

Venture capitalists and startup founders should focus on innovation and capacity-building to overcome the challenges of balancing Shariah compliance with financial performance. This includes developing new products and services that cater to underserved markets, leveraging technology to enhance transparency, and strengthening governance structures. Collaboration between policymakers, venture capitalists, and other stakeholders will be essential to ensure the successful implementation of these initiatives. By taking these steps, Indonesia can position itself as a global leader in the responsible use of SCVC, contributing to the sustainable development of its startup ecosystem.

CONCLUSION

The most significant finding of this research is the identification of Shariah-compliant venture capital (SCVC) as a viable financing model for startups in Indonesia, particularly in high-growth sectors aligned with Shariah principles. The study highlights that SCVC-funded startups achieve higher revenue growth rates compared to conventionally funded startups, demonstrating the effectiveness of Shariah-compliant financing in supporting early-stage ventures. However, challenges such as limited scalability, regulatory constraints, and lack of access to follow-on funding hinder the full potential of SCVC. These findings underscore the importance of aligning business models with Shariah principles and addressing systemic challenges to enhance the role of SCVC in fostering ethical and sustainable entrepreneurship.

The primary contribution of this research lies in its interdisciplinary approach, combining insights from Islamic finance, venture capital, and entrepreneurship to provide a comprehensive understanding of SCVC. Unlike previous studies that focus solely on theoretical or macroeconomic perspectives, this research integrates empirical data and qualitative insights to examine the practical challenges and opportunities associated with SCVC. The study also introduces a novel methodological framework by combining quantitative analysis of startup financing data with qualitative interviews, offering a holistic view of the impact of SCVC on startup success.

A key limitation of this study is its focus on Indonesia, which may limit the generalizability of the findings to other countries with different legal, cultural, and economic contexts. Additionally, the reliance on self-reported data from venture capitalists and startup founders may introduce biases, affecting the accuracy of the findings. Future research should expand the geographic scope to include comparative studies of SCVC in other Muslim-majority countries. Longitudinal studies could also be conducted to assess the long-term impact of SCVC on startup growth and sustainability. Addressing these limitations will further enhance the relevance and impact of research on Shariah-compliant venture capital and its role in fostering ethical entrepreneurship.

AUTHOR CONTRIBUTIONS

Look this example below:

Author 1: Conceptualization; Project administration; Validation; Writing - review and editing.

Author 2: Conceptualization; Data curation; In-vestigation.

Author 3: Data curation; Investigation.

CONFLICTS OF INTEREST

The authors declare no conflict of interest

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