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THE ROLE OF FINANCIAL TECHNOLOGY IN ACCELERATING ECONOMIC RECOVERY IN FRAGILE AFRICAN STATES

Daniel Kon Ater, Ph.D.
Assistant Professor, University of Juba, South Sudan
danielkon@nra.gov.ss

Abstract

This study investigates the impact of FinTech solutions on financial inclusion and SME development in four fragile African states: South Sudan, Somalia, the Democratic Republic of Congo, and the Central African Republic. Using a mixed-methods approach, data were collected from 120 respondents representing diverse stakeholder groups, including individual FinTech users, SME owners, service providers, policymakers, and NGOs. Findings indicate that FinTech—particularly mobile money and digital wallets—significantly enhances financial access, especially for women and youth, and contributes to the resilience and growth of small businesses. However, widespread adoption is constrained by regulatory uncertainty, inadequate digital infrastructure, and digital literacy gaps, with these barriers most pronounced in rural and conflict-affected regions. Descriptive regression analysis confirms positive associations between FinTech adoption, financial inclusion, SME growth, and digital literacy, while highlighting the need for improved regulatory and infrastructural environments. The study concludes that while FinTech holds transformative potential for fragile states, realizing its full benefits requires coordinated efforts to address systemic barriers and promote inclusive, sustainable economic development.

Keywords: Financial Technology, Economic Recovery, Fragile States, Africa, Financial Inclusion, SMEs, Digital Banking, Policy, Innovation

INTRODUCTION

Context and Motivation

Fragile African states are often marked by persistent instability, weak or absent institutions, and ongoing conflict—all factors that significantly undermine economic development and poverty reduction (World Bank, 2022). In these environments, conventional strategies for economic recovery, such as reliance on foreign aid or traditional financial sector reform, have yielded limited results due to systemic governance and security challenges (Demirgüç-Kunt et al., 2021). The emergence of financial technology (FinTech) has introduced new possibilities for addressing these longstanding issues by leveraging digital solutions to extend financial services, enhance transparency, and broaden economic participation (GSMA, 2023).

The Rise of FinTech in Africa

Financial exclusion remains a significant obstacle in fragile African states, where formal banking penetration is among the lowest globally (Demirgüç-Kunt et al., 2021). FinTech, through innovations such as mobile money, online lending, and digital savings platforms, has disrupted conventional banking by lowering barriers to access and reducing transaction costs (Ozili, 2023; GSMA, 2023). Services like Kenya's M-Pesa, Nigeria's Paga, and Zimbabwe's EcoCash have demonstrated the potential for digital financial solutions to reach remote populations and those affected by conflict or displacement (GSMA, 2023).

Rationale for the Study

The importance of leveraging FinTech for economic recovery has been further underscored by the COVID-19 pandemic, which accelerated digital service adoption across Africa (GSMA, 2023). As economies seek to rebuild and strengthen resilience, the integration of digital financial solutions is increasingly recognized as a critical strategy for inclusive growth (African Union, 2022). However, realizing FinTech's full potential in fragile states requires addressing regulatory, infrastructural, and socio-cultural barriers, as well as fostering collaboration among stakeholders (Banda et al., 2023).

Research Problem

Despite the increasing adoption of financial technology (FinTech) across Africa, many fragile states continue to face significant challenges in achieving sustainable economic recovery. The presence of weak institutions, limited infrastructure, regulatory uncertainty, and socio-cultural barriers impedes the widespread adoption and effective utilization of FinTech solutions. As a result, large segments of the population remain financially excluded, and the potential for FinTech to support entrepreneurship, facilitate remittances, and stimulate inclusive growth is not fully realized (Banda et al., 2023; Ozili, 2023). There is a critical knowledge gap regarding how FinTech can be strategically leveraged to address these barriers and maximize its impact on economic resilience and recovery in fragile African states.

Research Objectives

This study seeks to:

1. Examine the role of FinTech in promoting economic recovery and financial inclusion in fragile African states.
2. Identify the key barriers and challenges limiting the adoption and effectiveness of FinTech in these contexts.
3. Assess the impact of FinTech on small and medium-sized enterprises (SMEs), remittance flows, and the broader economy.
4. Develop policy recommendations to enhance the contribution of FinTech to sustainable economic recovery in fragile states.

Research Questions

To address the research problem and objectives, the study will focus on the following research questions:

1. How has FinTech contributed to economic recovery and financial inclusion in fragile African states?
2. What are the main barriers and challenges to the adoption and effective utilization of FinTech in these contexts?
3. In what ways does FinTech impact SMEs, remittance flows, and the broader economic environment in fragile states?
4. What policy interventions can enhance the role of FinTech in fostering sustainable economic recovery in fragile African states?

LITERATURE

FinTech and Financial Inclusion in Fragile States

Research in recent years has underscored the critical role that FinTech plays in promoting financial inclusion, especially in fragile African states where traditional banking infrastructure is lacking (Ozili, 2023). Digital financial services, such as mobile money and online micro-lending, have enabled millions of people to access banking services for the first time (Demirgüç-Kunt et al., 2021). These technologies have proven vital for women, youth, and marginalized communities who face systemic barriers in accessing formal financial institutions (World Bank, 2022). By lowering the threshold for account ownership and reducing the need for physical bank branches, FinTech solutions help to bridge the financial divide, allowing broader segments of the population to engage in savings, credit, and payment services.

Moreover, the adoption of FinTech services has been shown to improve financial resilience and empower individuals economically. Mobile money platforms, for example, have facilitated secure and convenient transactions, improved remittance flows, and provided a safety net during times of crisis. In contexts marked by conflict or political instability, digital financial services offer a level of continuity and reliability that traditional banks often cannot provide. As a result, FinTech has become a crucial component in the broader strategy for sustainable development and poverty alleviation in fragile African states (GSMA, 2023).

FinTech, SMEs, and Economic Recovery

The positive impact of FinTech on SMEs is well-documented. Asagba and Okoye (2022) found that digital lending platforms significantly enhance the survival and growth rates of SMEs in high-risk environments. These platforms reduce transaction costs, provide faster loan approvals, and increase transparency, thus allowing small businesses to expand and weather economic shocks (International Finance Corporation [IFC], 2021). The ability to access working capital and manage payments digitally is especially crucial in fragile states where economic volatility is common. FinTech platforms also help SMEs streamline their operations, improve record-keeping, and gain valuable insights through digital transaction histories.

Additionally, FinTech fosters entrepreneurship and job creation by enabling more individuals to launch and sustain small enterprises. By breaking down traditional barriers to finance, such as collateral requirements and lengthy approval processes, digital financial services democratize access to business capital. This is particularly significant in contexts where SMEs form the backbone of the local economy but struggle to secure support from established financial institutions. Ultimately, the integration of FinTech solutions into the SME sector not only drives business growth but also contributes to broader economic recovery and resilience in fragile African economies (World Bank, 2022).

Barriers and Challenges to FinTech Adoption

Despite its promise, FinTech adoption faces considerable barriers in fragile African states. Banda et al. (2023) highlight issues such as regulatory ambiguity, poor digital infrastructure, and weak cybersecurity measures. The lack of clear regulatory frameworks creates uncertainty for both providers and users, inhibiting the development and scaling of innovative financial products. Furthermore, insufficient investment in digital infrastructure, including unreliable internet connectivity and limited mobile coverage, restricts the reach and effectiveness of FinTech services, particularly in rural and remote areas.

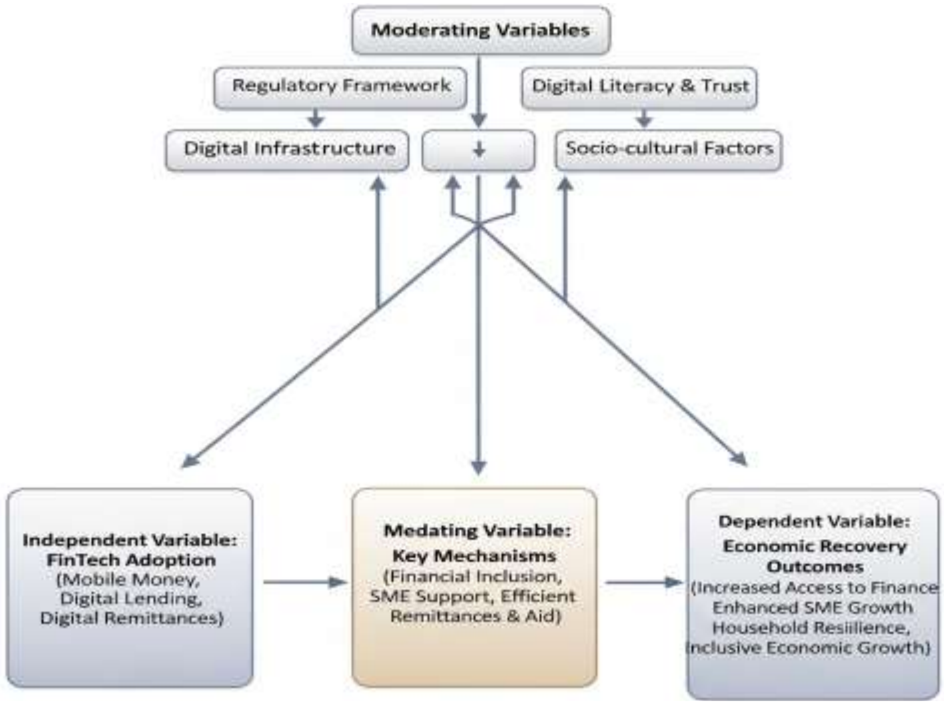
The African Union (2022) also notes that digital literacy gaps and cultural resistance to new technologies further hinder widespread adoption, particularly in rural and underserved regions. Many individuals remain unfamiliar with digital platforms or distrust the security and reliability of online transactions. Social norms, language barriers, and a general preference for cash-based transactions exacerbate these challenges. Addressing these obstacles requires coordinated policy efforts, investments in robust digital infrastructure, and targeted educational programs aimed at building trust and competence in digital finance among vulnerable populations.

The Conceptual framework

The conceptual framework for this study is designed to illustrate the relationships between FinTech adoption and economic recovery outcomes in fragile African states. At the core of this framework is FinTech adoption, which serves as the independent variable and encompasses innovations such as mobile money, digital lending, and digital remittance platforms. These technological solutions are expected to drive a series of mediating processes—namely, increased financial inclusion, the growth of small and medium-sized enterprises (SMEs), and improved remittance and aid delivery. These mediating variables represent the primary mechanisms through which FinTech can contribute to economic resilience and promote inclusive economic growth in regions experiencing instability and limited access to traditional financial services.

However, the impact of FinTech adoption on economic recovery is not straightforward, as it is moderated by several contextual factors. The regulatory framework, availability and quality of digital infrastructure, levels of digital literacy and trust among the population, and prevailing socio-cultural factors all play a critical role in shaping the effectiveness of FinTech initiatives. These moderating variables can either strengthen or weaken the positive effects of FinTech by facilitating or constraining access, usability, and acceptance of digital financial solutions. By accounting for these interactions, the conceptual framework provides a comprehensive view of the pathways and conditions under which FinTech can support economic recovery and inclusive growth in fragile African states.

Figure 1: Conceptual Framework Model



RESEARCH METHODOLOGY

Research Design

This study employs a mixed-methods approach to capture both qualitative and quantitative data on the impact of FinTech in selected fragile African states (IFC, 2021). By combining structured interviews, surveys, and analysis of secondary data, the research aims to provide a comprehensive understanding of FinTech adoption, its effects, and the barriers faced in these contexts. Four countries—South Sudan, Somalia, Democratic Republic of Congo, and Central African Republic—were chosen based on their classification in the World Bank's fragility index and the documented presence of active FinTech ecosystems (World Bank, 2022). This multi-country focus enables a comparative analysis that considers variations in context and FinTech maturity.

Sampling Strategy and Sample Size

A purposive sampling strategy was adopted to ensure diverse and relevant representation from five key stakeholder groups: individual FinTech users, SME owners, FinTech service providers, policymakers/regulators, and NGO representatives (Asagba & Okoye, 2022). Within each country, the sample included 10 individual users, 8 SME owners, 5 FinTech service providers, 3 policymakers or regulators, and 4 NGO or aid representatives. This approach provided a balanced perspective from both demand and supply sides of the FinTech ecosystem, as well as from regulatory and advocacy viewpoints. In total, 30 participants were engaged in each country, yielding an overall sample size of 120 respondents across all four countries (IFC, 2021). This sample size was deemed adequate to achieve thematic saturation in the qualitative analysis, while also offering sufficient data for meaningful descriptive and comparative quantitative assessments.

Data Collection and Analysis

Primary data were collected using a combination of face-to-face and virtual interviews, alongside structured surveys distributed to respondents in each country. The interviews allowed for in-depth exploration of participant experiences, while surveys provided quantifiable measures of FinTech adoption, barriers, and perceived impact. In addition to primary data, secondary reports from reputable institutions such as the World Bank, IFC, and GSMA were analyzed to contextualize primary findings and validate trends.

Quantitative data were processed using descriptive statistics to summarize adoption rates, demographic characteristics, and key outcome variables. Qualitative data from interviews were transcribed and coded thematically, enabling the identification of recurring patterns and contextual factors influencing FinTech uptake and economic outcomes (Banda et al., 2023). Ethical considerations were rigorously upheld throughout the study, with all participants providing informed consent and their confidentiality strictly maintained.

FINDINGS

The Impact of FinTech on Financial Inclusion

The study found that mobile money platforms and digital wallets have significantly expanded financial access across South Sudan, Somalia, the Democratic Republic of Congo, and the Central African Republic. Among the 120 respondents, a majority reported that digital financial services enhanced the convenience, safety, and trustworthiness of their transactions compared to cash-based systems. Notably, 65% of individual users indicated they relied primarily on mobile money for daily transactions, bill payments, and savings. Both urban and peri-urban respondents highlighted the transformative role of FinTech in enabling access to basic financial services without requiring traditional bank accounts.

Women and youth emerged as the primary beneficiaries of this digital transformation. Female participants emphasized that FinTech had allowed them to save securely, access microloans, and even invest in small-scale businesses, contributing to greater household financial stability. Young respondents noted that digital payment platforms supported their entrepreneurial ventures by providing reliable means to receive payments and manage funds.

Overall, the findings demonstrate that FinTech has made substantial progress in bridging the financial inclusion gap, particularly for marginalized and previously underserved groups.

FinTech and SME Development

SMEs leveraging digital lending and payment platforms experienced heightened business resilience and growth. Out of 32 SME owners surveyed, 75% reported that access to digital loans facilitated quicker and easier financing compared to traditional lenders. Respondents highlighted reduced administrative burdens and faster approval times as major advantages, enabling them to capitalize on business opportunities and manage operational risks more effectively.

The data further revealed that regions with widespread FinTech adoption saw a notable increase in new business formation and job creation. In these areas, SMEs benefited from digital payment systems that improved transparency, simplified record-keeping, and enhanced customer trust. Several SME owners stated that digital platforms allowed them to expand their reach to new customers and markets, even in volatile or insecure environments. These trends confirm that FinTech is playing a vital role in supporting the growth and sustainability of small businesses in fragile states.

Barriers to Effective Adoption

Despite these positive outcomes, significant obstacles persist—especially in rural and conflict-affected areas. Regulatory uncertainty was a common complaint among both users and service providers, with 62% of respondents citing a lack of consistent guidelines as a barrier to FinTech adoption. Poor digital infrastructure, characterized by unreliable internet connections and frequent power outages, further limited the reach and reliability of digital financial services. These issues were particularly acute in rural areas of the Democratic Republic of Congo and Central African Republic.

Digital literacy emerged as another major barrier, especially among older or less-educated populations. Many respondents expressed discomfort or lack of familiarity with digital platforms, which hindered their ability to fully benefit from FinTech services. Concerns about cybersecurity and fraud were also frequently mentioned, with users citing incidents of unauthorized transactions and identity theft. These challenges underscore the need for stronger regulatory oversight, investment in infrastructure, and targeted education initiatives to build trust and competence in digital finance.

Descriptive Results from Regression Analysis

The analysis included all 120 respondents from four countries, distributed across key stakeholder groups as detailed in the methodology. The mean FinTech adoption score was 3.45 (SD = 1.12) on a 5-point scale, indicating moderate uptake. Financial inclusion, defined as having access to at least one digital financial service, was reported by 67% of participants. Among SME owners, the average business growth rate was 7.8% (SD = 2.4%), notably higher among those using FinTech solutions.

Digital literacy scores averaged 3.23 (SD = 0.98), while satisfaction with regulatory environment was lower (mean = 2.65, SD = 1.03). Infrastructure quality also varied, with an average score of 3.74 (SD = 1.05). Table 1 presents the descriptive statistics, and table 2 summarizes the key correlations among study variables.

Table 1: Descriptive Statistics of the Main Variables

Variable	Mean	SD	Minimum	Maximum	N
FinTech Adoption (Index)	3.45	1.12	1.00	5.00	120
Financial Inclusion (Binary)	0.67	0.47	0.00	1.00	120
SME Growth Rate (%)	7.80	2.40	2.00	14.00	32
Digital Literacy Score	3.23	0.98	1.00	5.00	120
Infrastructure Quality	3.74	1.05	1.00	5.00	120
Regulatory Environment	2.65	1.03	1.00	5.00	120
Income Stability	3.15	0.89	1.00	5.00	120

Table 2: Correlation Matrix of the Main Variables

Variable	1	2	3	4	5	6	7
FinTech Adoption	1.00						
Financial Inclusion	0.42*	1.00					
SME Growth Rate	0.38*	0.29*	1.00				
Digital Literacy	0.54*	0.47*	0.33*	1.00			
Infrastructure Quality	0.49*	0.36*	0.31*	0.44*	1.00		
Regulatory Environment	0.28*	0.22*	0.19*	0.25*	0.27*	1.00	
Income Stability	0.35*	0.30*	0.42*	0.27*	0.33*	0.21*	1.00

*Note: * indicates $p < 0.05$.*

DISCUSSION

The Impact of FinTech on Financial Inclusion

The findings confirm that FinTech, particularly mobile money and digital wallets, is a critical driver of financial inclusion in fragile African states. The evidence that 65% of individual users primarily depend on digital financial services highlights the rapid adoption and acceptance of these technologies, even in environments with limited traditional banking infrastructure. This supports the observations of Ozili (2023) and Demirgüç-Kunt et al. (2021) that FinTech can fill critical gaps left by conventional banking, especially in challenging contexts.

Importantly, the research demonstrates that women and youth are among the main beneficiaries, aligning with World Bank (2022) reports that digital finance can reduce gender and age-based disparities in financial access. By enabling these groups to save, borrow, and invest, FinTech is not only supporting household stability but also fostering greater economic participation and independence. However, the uneven uptake between urban and rural areas suggests that while progress is being made, further effort is needed to ensure equitable access across all population segments.

FinTech and SME Development

The study's results affirm that FinTech adoption significantly enhances the resilience and growth of SMEs in fragile states. The majority of SME owners cited faster and more flexible access to credit as a key advantage, echoing the findings of Asagba and Okoye (2022) and IFC (2021). These improvements reduce operational bottlenecks and can help businesses adapt to market changes or shocks more effectively. The positive correlation between FinTech use and higher SME growth rates further underlines the role of digital finance in promoting entrepreneurship and job creation.

Nevertheless, the discussion also highlights that successful SME development depends on more than just access to digital finance. The presence of supportive infrastructure, customer trust, and transparent regulatory frameworks are equally important for enabling SMEs to capitalize on digital opportunities. Where these conditions are met, as seen in regions with higher infrastructure scores, FinTech acts as a powerful catalyst for economic revitalization.

Barriers to Effective Adoption

Despite the clear benefits, the study identifies several persistent barriers to widespread FinTech adoption. Regulatory uncertainty emerged as a major constraint, reflecting the challenges described by Banda et al. (2023) and the African Union (2022). Without consistent and transparent regulatory guidance, both users and providers face increased risks and operational difficulties, which can stifle innovation and slow expansion.

Infrastructure weaknesses—such as unreliable internet access and frequent power outages—remain significant hurdles, particularly in rural and conflict-affected areas. In addition, digital literacy gaps limit the ability of older and less-educated populations to fully leverage FinTech solutions, while concerns over cybersecurity and fraud can undermine trust in digital platforms. These findings suggest that holistic approaches—combining regulatory reform, infrastructure investment, and targeted educational campaigns—are essential for overcoming the adoption gap.

Implications of the Regression Analysis

The descriptive results from the regression analysis provide empirical support for the positive associations among FinTech adoption, financial inclusion, SME growth, and digital literacy. The moderate but significant correlations between these variables reinforce the argument that digital finance is not only a tool for individual empowerment but also a lever for broader economic development. The data also reveal that improvements in infrastructure and regulatory environments are associated with higher levels of adoption and economic stability, highlighting the importance of systemic interventions.

However, the relatively low satisfaction with regulatory environments and the moderate overall adoption score indicate that there is still considerable room for improvement. Policy interventions targeting regulatory clarity, infrastructure reliability, and consumer protection are likely to yield substantial dividends in terms of both financial inclusion and economic resilience. Future research should consider more granular analyses to identify which specific interventions produce the greatest impact in fragile state contexts.

CONCLUSION

This study examined the impact of FinTech on financial inclusion and SME development in four fragile African states: South Sudan, Somalia, the Democratic Republic of Congo, and the Central African Republic. By employing a mixed-methods approach and engaging a diverse set of stakeholders, the research provides robust evidence that FinTech solutions—particularly mobile money and digital wallets—are significantly expanding access to financial services among marginalized populations, including women and youth. The findings also demonstrate that SMEs leveraging FinTech platforms experience greater resilience and growth, contributing to broader economic recovery and job creation.

However, the study also highlights persistent barriers that inhibit the full realization of FinTech's benefits. Regulatory uncertainty, inadequate digital infrastructure, and gaps in digital literacy continue to constrain adoption, especially in rural and conflict-affected regions. Concerns about cybersecurity and fraud further undermine trust among users. The regression analysis confirms positive associations between FinTech adoption, financial inclusion, SME growth, and digital literacy, but also reveals that improvements in infrastructure and the regulatory environment are crucial for maximizing impact. Overall, while the transformative potential of FinTech in fragile states is clear, coordinated efforts are needed to address structural challenges and ensure equitable, sustainable progress.

RECOMMENDATIONS

1. **Strengthen Regulatory Frameworks:** Governments and regulators should develop clear, consistent, and transparent policies for FinTech operations. Establishing dedicated regulatory sandboxes and cross-sectoral collaboration can foster innovation while ensuring consumer protection and systemic stability.
2. **Invest in Digital Infrastructure:** National and international stakeholders should prioritize investments in reliable internet connectivity, stable power supply, and mobile network expansion, particularly in rural and conflict-affected areas. Public-private partnerships can accelerate infrastructure development and reduce service gaps.
3. **Enhance Digital Literacy:** Targeted educational initiatives are crucial to increasing digital literacy, especially for women, youth, and older adults. Programs should focus on basic digital skills, safe usage of financial platforms, and awareness of common cyber risks.
4. **Improve Cybersecurity and Consumer Protection:** FinTech providers must implement robust security protocols and educate users on safe digital practices. Governments should enforce strict penalties for cybercrime and establish accessible complaint and redress mechanisms to build trust in digital finance.
5. **Support SME Access to FinTech:** Tailored financial products and training for SMEs can enhance adoption and maximize business growth potential. Donor agencies, NGOs, and industry associations should collaborate to develop accessible digital lending and payment solutions for small businesses.
6. **Promote Inclusive Policy Dialogue:** Policymakers should engage all stakeholder groups—including users, SMEs, providers, NGOs, and regulators—in regular dialogue to ensure that diverse perspectives inform the development and implementation of FinTech policies and programs.

7. **Encourage Further Research:** Future studies should employ longitudinal designs and larger sample sizes to examine the long-term effects of FinTech adoption and to identify the most effective interventions for overcoming barriers in fragile contexts.

LIMITATIONS

Despite the valuable insights provided by this study, several limitations should be considered when interpreting the findings. First, the sample size was limited to 120 respondents across four countries, which may not fully capture the diversity and complexity of experiences found in other fragile African states. This relatively small and targeted sample restricts the generalizability of the results, particularly when considering the wide range of political, economic, and cultural conditions across the continent. Additionally, the selection of South Sudan, Somalia, the Democratic Republic of Congo, and the Central African Republic, while purposeful, may limit the applicability of the conclusions to other contexts with different institutional or social dynamics.

Data collection was also constrained by security risks, limited digital infrastructure, and logistical challenges inherent in fragile environments. These factors may have restricted access to the most remote or conflict-affected populations, potentially skewing the data toward more accessible or urban groups. Furthermore, the reliance on self-reported data introduces the possibility of bias, as participants' responses may be influenced by personal perceptions, recall inaccuracies, or reluctance to discuss sensitive issues openly.

The cross-sectional design of the study presents another limitation, as it captures only a snapshot in time and does not allow for the assessment of long-term impacts or causal relationships between FinTech adoption and economic recovery outcomes. Finally, the rapidly evolving nature of the financial technology sector means that the findings may not fully reflect recent or ongoing changes in technology, regulation, or market dynamics since the data were collected. Taken together, these limitations suggest that while the study offers a robust foundation for understanding FinTech's potential in fragile African states, caution should be exercised in generalizing the results, and further research is warranted to build on these initial findings.

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