



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 08-Nov-2022 | Report No: PIDC34194



BASIC INFORMATION

A. Basic Project Data

Country Uzbekistan	Project ID P179108	Parent Project ID (if any)	Project Name Uzbekistan Digital Inclusion Project (P179108)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date Apr 14, 2023	Estimated Board Date Jun 28, 2023	Practice Area (Lead) Digital Development
Financing Instrument Investment Project Financing	Borrower(s) The Republic of Uzbekistan	Implementing Agency Ministry for Development of ITC	

Proposed Development Objective(s)

To support digital inclusion by increasing access of unemployed women and youth to skills and employment opportunities in the digital economy.

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	50.00
Total Financing	50.00
of which IBRD/IDA	50.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Development Association (IDA)	50.00
IDA Credit	50.00

Environmental and Social Risk Classification

Concept Review Decision



Moderate

Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

- 1. Uzbekistan is a lower-middle-income, mineral-rich, doubly landlocked Central Asian country with significant longer-term challenges in creating high-productivity employment and reducing the urban-rural gap in living standards, which are compounded by the COVID-19 pandemic.** With over 35 million inhabitants, Uzbekistan has the largest population in Central Asia. Over the past decade, Uzbekistan has maintained high and stable economic growth rates (at 6.1 percent on average). However, Uzbekistan’s economic achievements have largely relied on a model driven by the state’s dominance in the economy, limited economic freedoms, and a restricted private sector. As a result, for decades the country has struggled to reach its full economic potential and generate full employment. Since 2017, the Government of Uzbekistan (GoU) has implemented wide-reaching economic and social reforms, including the unification of exchange rates liberalization of the tourism and visa regimes, removal of price controls in many sectors, an overhaul of the tax system to improve its efficiency and reach, lowering of import tariffs and strengthening of trade facilitation.
- 2. Uzbekistan’s working-age population has been increasing over time, but formal job creation has been slow resulting in high informality and inactivity rates.** The working-age population has increased by around 50 percent since 2000, from 14 million to more than 22 million. The population ages 0–9 years is about 1.3 million, which means that Uzbekistan will have a significantly larger share of youth in the next decades. Prior to 2017, about 600,000 new labor market entrants have been competing for fewer than 200,000 mostly contractual and seasonal jobs. Unemployment and inactivity rates are high, especially for youth, women, and people in the two poorest quintiles. In 2020, official statistics estimated unemployment at 10.5 percent of the active labor force, while another 34 percent of working-age people were inactive (i.e., not working or looking for work). The State Statistics Committee estimates that there were about 1.1 million jobs available in 2018 including informal and small-scale agricultural work, falling short of growth in the labor force by more than 200 thousand places.¹ Official employment estimates also include labor migrants working abroad (adding 2.6 million to the total in 2018). In 2019, about 59 percent of total employment was informal.²
- 3. A high share of youth struggle to enter the labor force or obtain further education.** Unemployment rates are higher among youth and employment outcomes are worse in terms of job security, social insurance, protection, and pay. Youth who are not in employment and not in education or in training (commonly referred as “NEETs”) represent 24 percent of the group between the ages of 16 and 24, and 26.4 percent among those between the ages of 16 and 29. The NEET rate among young women was as high as 38.2 percent in 2017, compared to only 9.4 percent of men in the same age group—a gap of 29 percentage points. The increase in the youth population is expected to peak in the coming 15-20 years, making the question of helping youth transition into productive employment a particularly timely issue. The main employment

¹ This includes about 152,500 job vacancies, 188,000 vacancies owing to death or illness, 169,500 seasonal or part-time job vacancies, 48,000 jobs reserved for socially vulnerable workers, and 155,800 opportunities for self-employment in small-holder land plots and dehqan farms.

² These data are from Uzbekistan’s Ministry of Employment and Labor Relations.



challenges reported by youth are the scarcity of jobs and weak labor demand in rural areas, high informality, and low wages.³

4. Achieving Uzbekistan’s 2030 ambitions will require the acceleration of an already bold reform agenda: more private sector–led, inclusive, and sustainable growth is essential to the success of Uzbekistan’s transition. The GoU’s new Development Strategy of New Uzbekistan for 2022-2026 (National Development Strategy, NDS)⁴ builds on the successful completion of the Actions Strategy on further development of Uzbekistan in 2017-2021⁵ and renews the GoU’s commitment to the economic transition. With 2022-2026 NDS the GoU has committed to cutting poverty in half by 2026 and becoming an upper-middle-income country by 2030. Reducing the poverty rate by half will require more rapid job creation and less exclusion from economic opportunity, especially among youth, women, and people with disabilities.

Sectoral and Institutional Context

5. By recognizing the critical role of digital development in Uzbekistan’s economic growth and job creation, the GoU has put digital transformation high on its strategic agenda. During the last five years, US\$2 billion was invested into ICT sector development, including foreign direct investments (FDI) of US\$700 million. Since 2020, which was entitled the Year of the Development of Science, Enlightenment and the Digital Economy, the GoU made a large number of decisions on digitalization, including the adoption of the Digital Uzbekistan 2030 Strategy, thus initiating a new phase of the country’s digital development. The Strategy sets general directions for digital transformation till 2030 and focuses on five priority areas: (1) Digital infrastructure; (2) e-Government; (3) Digital economy; (4) Digital technologies national market; and (5) IT education. Under this Strategy, the GoU has set ambitious plans to modernize the telecom infrastructure by substantially increasing the length of fiber optic networks, to increase the bandwidth of the international gateways and the number of mobile base stations, to connect social facilities such as schools, preschools, and healthcare facilities with high-speed Internet, and to attract US\$2.5 billion for the development of digital infrastructure during 2021-2022. While Uzbekistan is making progress in this sector, the digital economy’s contribution to GDP is still low (1.9 percent as of 2021)⁶, and the share of ICT services in GDP is also low (1.6 percent as of 2021)⁷ from which 90 percent are provided in Tashkent, making this market uneven across regions with the worst situation being in the Karakalpakstan, Andijan, and Surkhandarya regions. In this context, the GoU has placed a strong emphasis on digitalization in the NDS with plans to increase the size of the digital economy at least 2.5 times, making it the main "driver" sector, including achieving a 10-fold increase in software outsourcing up to US\$500 million, increasing the share of digital public services to 100 percent (20 percent of which would be transferred to the private sector), and bringing the digitalization of workflow and work processes of government institutions to 90 percent.

6. Uzbekistan has made progress over the past decade in improving the quality and access to Internet connectivity. With the Digital Uzbekistan 2030 Strategy, the GoU has set challenging targets, including deployment of more than 220,000 km of fiber optic cables across the country by 2025. By end-2021, Uzbekistan deployed 118,000 km and had increased its international Internet bandwidth to 1800 Gbps (54 kbps per person)⁸. Uzbekistan’s fixed broadband household penetration reached 26 percent as of June 2022⁹ and the telecom market has experienced continuing price decreases for international Internet access (around US\$2.7/Mbps in September 2022 vs US\$91.5 in 2016), in retail prices

³ World Bank report “Youth Employment in Uzbekistan: Opportunities and Challenges”, September 2021

⁴ The Presidential Decree #UP-60 “About the Development Strategy of New Uzbekistan for 2022-2026” (dated as of January 28, 2022), <https://lex.uz/ru/docs/5841077>

⁵ The Presidential Decree #UP-4947 “On the Strategy of Actions for the further Development of the Republic of Uzbekistan” (dated as of February 7, 2017), <https://lex.uz/ru/docs/3107042>

⁶ Open Data on Digital Economy from the State Statistics Committee of the Republic of Uzbekistan, <https://stat.uz/ru/ofitsialnaya-statistika/tsifrovaya-ekonomika>

⁷ The Report of State Statistics Committee of the Republic of Uzbekistan “The production of the GDP (January – April 2021)”

⁸ <https://mitc.uz/ru/news/view/3577>

⁹ TeleGeography data, June 2022



for the mobile-broadband basket (US\$1.42 in 2021 vs US\$30 in 2016), and Uzbekistan was among 4 new countries that met the UN's two percent affordability target¹⁰. The majority of 35,000 social facilities (schools, preschools, healthcare facilities, and makhalla citizens' assemblies) have been connected to high-speed Internet. In November 2021, the GoU updated key targets on telecom infrastructure development, including plans to reach 100 percent coverage of population settlements with mobile broadband connectivity by 2024. Lately, the GoU introduced further incentives for telecom operators (e.g., tax, customs), especially for those deploying infrastructure in rural areas and made efforts in simplifications on issuance of permits.

7. Despite this progress, Uzbekistan's Internet adoption remains low, while Internet connectivity is insufficiently diversified due to its reliance on terrestrial transit bandwidth and dependence on neighboring countries. Uzbekistan is considered to be one of the lower-level mobile penetration countries in the Asian continent with overall mobile penetration at 89.7 percent as of June 2022, remaining the lowest in the ECA region after Tajikistan (80.2 percent)¹¹. In August 2022, Uzbekistan ranked 115th (out of 140) globally for mobile broadband speed and 85th (out of 182) for fixed broadband speed.¹² Despite reaching the UN's affordability target, affordability in Uzbekistan is still insufficient for the poorest households, as evidenced by the country's low ranking for affordability on the Inclusive Internet Index 2022: 85th out of 100 countries.¹³

8. Enhancing the sustainability and resilience of digital infrastructure in Uzbekistan is a priority, particularly in relation to promoting cybersecurity, data protection, and ensuring business continuity in the face of disasters. Uzbekistan currently ranks 70th in the International Telecommunication Union's (ITU) Global Cybersecurity Index out of 184 countries¹⁴ with lower scores received on technical and organizational measures. This is corroborated by a study of the UK-based Comparitech¹⁵ that found Uzbekistan to be among the ten least cyber-secure among the 75 countries analyzed. To start addressing this challenge, the GoU is currently planning to adopt a new Law "On cybersecurity" (the Law was approved by the Senate of the Oliy Majlis on March 17, 2022), develop a Cybersecurity Strategy for the 2023-2026 period, and improve the country's cyberattacks monitoring system. Moreover, further progress is strongly recommended to continue strengthening Uzbekistan's policy and legal framework in personal data protection in line with good international practices as a precondition for a successful digital transformation. This has become even more important as Uzbek citizens face an accelerated increase of online scams and data thefts.¹⁶

9. The GoU is paying significant attention to promoting and supporting the creation of IT-enabled jobs, including by supporting startups and young professionals, but the current ecosystem is still at an early stage. The GoU made good efforts in the last four years, including the establishment of technoparks such as the Technology Park of Software and IT "IT-Park" (with various tax and customs incentives and other benefits for its residents until January 1, 2028) and the Yashnabod" Innovation Technopark, and the launch of various venture funds and associations. The GoU made progress through a number of initiatives to address the limited digital talent pool, including through the establishment of 205 IT centers (one in each district one), the launch of IT Nation and One Million Uzbek Coders program (as of June 2022, about 1.2 million Uzbeks have completed the training), establishment of branches of foreign IT institutions and digital universities with the IT-Park's own University, and the launch of a program to provide up to 50 percent compensation for the costs of obtaining international IT-certificates. As of now, there are 58 universities that have specialized IT courses (with 20 of

¹⁰ In 2018, the UN Broadband Commission for Sustainable Development set its updated affordability target: to bring prices for entry-level broadband services below 2 percent of monthly GNI per capita by 2025.

¹¹ TeleGeography data, June 2022

¹² Speedtest Global Index, August 2022, <https://www.speedtest.net/global-index>

¹³ <https://theinclusiveinternet.eiu.com/explore/countries/performance>

¹⁴ ITU Global Cybersecurity Index 2021, <https://www.itu.int/epublications/publication/D-STR-GCI.01-2021-HTM-E/>

¹⁵ Comparitech "Which countries have the worst (and best) cybersecurity?", September 2021

¹⁶ According to the Ministry of Interior's data, Internet scammers "cleaned" the bank cards of almost three thousand Uzbeks during 2021 (and these are only among those who officially reported). <https://repost.uz/afaristi-i-smski>



them fully focused on IT) and over 20,000 highly qualified IT specialists, and the GoU is targeting to increase the pool by at least 10,000 annually. Starting from 2023, the GoU is launching an annual Presidential Contest to support youth tech startups with a total prize fund of US\$1 million. Notwithstanding these achievements, the current ecosystem of startups and digital entrepreneurship is still in an early development stage and the shortage of IT professionals is large.

10. The GoU has now extended its digital agenda further with a focus on strengthening broader digital skills and increasing IT-enabled business process outsourcing (BPO)¹⁷ and knowledge process outsourcing (KPO)¹⁸ services in order to create more high-paying remote jobs, especially in the regions of Uzbekistan. During the COVID-19 lockdowns, the volumes of production and services rendered at 196,000 enterprises were significantly reduced, and, as a result, the number of unemployed naturally increased. At the same time, since 2017, the country has experienced a 76-fold increase of IT products and services exports from US\$600,000 to US\$46 million in 2021 (of which 62 percent were related to BPO and 34 percent to software development activities), with a corresponding increase in the number of tech companies and high-paying jobs in the country. Based on its assessment of significant untapped opportunities in the IT-enabled outsourcing market, and to create more and better jobs, the GoU is planning to establish IT outsourcing centers (14 centers in all regions and Tashkent city by the end of 2022, and in each city/district level during 2023-2026), BPO centers, and BPO schools in all regions and districts to initiate skills development activities (e.g., digital skills and soft skills, including English language and marketing/communication skills, among others) for the population, particularly youth, to be able to expand digitally deliverable services (e.g., services that can be provided online, such as dispatch, call center, finance and accounting, digital marketing, data entry, and procurement services). The GoU is planning to achieve US\$500 million in IT products and services exports by 2026 and US\$1 billion by 2028. To provide further support to IT and BPO companies, in early 2022, the IT Park under MITC launched various programs, including expedited work visas (ITVisa)¹⁹ for foreign investors, IT specialists and foreign founders specialized in the IT and BPO sectors, and assisting with activities such as launching a business, recruitment/selection of personnel, office spaces with equipment and preferential rent for the first 6 months, as well as concessional loans for training specialists.

Relationship to CPF

11. The Project contributes to achieving the core strategic priorities of the WBG's Country Partnership Framework (CPF) FY22-FY26 for Uzbekistan (Report No. 170931), which was discussed by the Board of Executive Directors on May 24, 2022²⁰. The Project supports CPF High-Level Outcome (HLO) 1 (Increase Inclusive Private Sector Employment), particularly CPF Objectives 1.2 (Enable Private Sector Growth and Investment) and 1.4 (Improve the Infrastructure for Competitiveness and Connectivity) by focusing on improving the enabling environment for expanding access to the Internet, especially in rural areas, and facilitating the development of innovative IT-enabled businesses and digital jobs. Furthermore, the project will support HLO 2 (Improve Human Capital) through improved digital skills including for those living in rural areas, thereby creating opportunities for online educational and health services, as well as telework. Furthermore, the Project will contribute to expanding access to job opportunities for youth, women, and other vulnerable

¹⁷ Business process outsourcing (BPO) is the delegation of one or more IT-intensive business processes to an external provider that, in turn, owns, administrates and manages the selected processes based on defined and measurable performance metrics. (Source: [Gartner](#)).

¹⁸ Knowledge process outsourcing (KPO) is the outsourcing of core, information-related business activities. KPO contracts out knowledge-based work to qualified subject matter experts. Companies utilize KPO when they are looking for specialized knowledge and expertise and when they have a shortage of skilled professionals on staff. (Source: [Investopedia](#)).

¹⁹ <https://itvisa.uz>: Special IT-Visa program that provides a visa with a multiple-entry for investors, founders of IT companies, and IT professionals for up to 3 years with the possibility of extension for an indefinite period, which allows the visa holder to receive education and medical services on the same conditions as citizens of Uzbekistan, frees the holder from the obligation to re-register when traveling around the country's regions, and enables the holder to obtain a residence permit in a simplified manner, subject to the acquisition of residential real estate of any value.

²⁰ World Bank Group, 2022. Uzbekistan - Country Partnership Framework for the Period FY2022-FY2026.

<https://documents.worldbank.org/en/publication/documents-reports/documentdetail/558271653576525839/uzbekistan-country-partnership-framework-for-the-period-fy2022-fy2026>



groups by up-skilling them to better align the workforce to employers' demand for specialized digital skills and prepare it for the green and digital transition. In addition, the Project will support the cross-cutting CPF objective of closing gender gaps by prioritizing women, especially those residing in rural areas, as a target beneficiary group. Finally, the citizen engagement mechanisms integrated into the Project design will ensure the Project's consistency with the CPF cross-cutting objective of strengthening citizen engagement and accountability for public services.

C. Proposed Development Objective(s)

12. Support digital inclusion by increasing access of unemployed women and youth to skills and employment opportunities in the digital economy.

Key Results (From PCN)

13. **Key results of the Uzbekistan Digital Inclusion Project will be measured in terms of the areas identified in the PDO.**

The proposed PDO level indicators are:

- People from vulnerable groups that gained digital literacy and are employable
- (Number of people that received basic training and were presented with opportunity to apply for employment), disaggregated by target group (women and youth)
- Number of people that gained BPO skills and were employed, disaggregated by target group (women and youth)

14. **The Project will include a range of intermediate results indicators**, including but not limited to the following: (i) strategic framework for the BPO industry is strengthened; (ii) BPO Strategy adopted, (iii) number of BPO Centers in the regions established and operational; (iv) number of business promotion representative offices set up, (v) percentage of Project beneficiaries who are satisfied with the received digital skills training. (vi) number of BPO companies that entered market.

D. Concept Description

15. **The proposed Uzbekistan Digital Inclusion Project is the first operation to support the development of the digital economy in Uzbekistan in line with the GoU's "Digital Uzbekistan 2030 Strategy" and "Development Strategy of New Uzbekistan for 2022-2026".** The proposed Project will focus on the fundamentals for digital inclusion, including digital jobs creation for youth and women. The priority for the Project is the creation of new digital jobs in the BPO and KPO markets, particularly targeting regional areas. The proposed Project would contribute to the larger goal of building greater economic opportunities, creating more and better jobs, and facilitating private sector-led economic growth as indicated in the NDS. The Project will include gender-disaggregated indicators in the results framework with a target of 50 percent of the project beneficiaries being women.

16. **The proposed Uzbekistan Digital Inclusion Project is articulated around three main areas for intervention: policy, infrastructure, and skills.** These components seek to (i) enhance the enabling legal, regulatory, and institutional environment for a vibrant and inclusive BPO industry and for the broader digital economy; (ii) develop digital and language skills among youth, women and other vulnerable groups necessary for employment in digitally enabled service sectors (ii) expand infrastructure for BPO industry in the regions of Uzbekistan; and (iv) support mechanisms for location promotion.



17. Component 1: Digital Inclusion and Enabling Environment (up to US\$5 million)

Under Component 1, the Project will mainly focus on the establishment of a solid foundation for the development of the BPO industry in Uzbekistan, starting with capacity building activities to produce a large pool of qualified labor in the regions equipped with necessary digital and soft skills, particularly targeting women and youth in NEET (aiming for a participation level of 50 percent women). Trainings will be provided on the premises of IT Park regional centers and will include basic digital skills and English language skills (to be further specified by appraisal). More advanced skills development, linked to BPO technical skills requirements, will take place under component 2. Under this Component, the Project will further improve the institutional, legal, and regulatory framework to enable a favorable business environment for private investment in outsourcing services markets. It will also provide broader support for the development of the legal and regulatory frameworks for the digital economy, with a specific emphasis on inclusion and focus on ensuring modern enablers and safeguards for data management, IP protection, company registration, data protection, cybersecurity and energy efficiency. The Project will also help with the design of innovative financial mechanisms to attract private investment for the deployment of broadband in rural areas, potentially through PPPs and leveraging private investments. This component will be implemented during the first phase of the project (Y1-3) and will allow the client to take further decisions on investments downstream.

18. Component 2: Development of regional infrastructure and incentives for BPO (up to US\$35 million)

The Project will support demand generation through financing of a program of incentives and preparing necessary office spaces for the incoming BPO companies with the objective of creating jobs in the regions. Specifically, the incentive package will include co-financing with the BPO companies professional training, equipment, and operational costs. The co-financing will be provided for each person hired from the pool of vulnerable individuals whose skills would have previously been upgraded under Component 1 during phase 1 of the project. In order to be eligible for co-financing, BPO companies would have to retain staff for at least one year of employment. These efforts coupled with activities under Component 3, will stimulate more global BPO companies to choose Uzbekistan as a location. It is anticipated that the spillover effect will create employment of between 10,000 and 25,000 people (to be confirmed by the feasibility study (FS) to be carried out under this component). A large part of co-financing is planned to be disbursed during the second phase of the project. Furthermore, during the first phase, the Project will finance refurbishment of up to 5 existing facilities (the FS will confirm a possibility and cost of the refurbishment works), and based on the demand, the second phase may involve either rolling out the refurbishment of existing facilities in a larger number of locations or construction of new buildings for BPO centers.

19. Component 3: Location Attractiveness Promotion (up to US\$10 million)

The Project will support enhancement of the digital brand of Uzbekistan, including cooperation with a foreign industry promotion company and creation of a network of international representation agencies with the aim to attract local and global BPO companies and private entrepreneurs into the BPO market in Uzbekistan. This component will also finance in-depth both local and global market analysis and development of the BPO strategy that will guide strategic decisions around selection of target sectors and regions as well fine tuning of the incentives package and development of promotion materials. Also, this component will support IT Park capacity in handling BPO transactions, management and monitoring and evaluation of the project.



Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

Environmental Risk Rating is Moderate. Key environmental impacts emanate from Component 2. According to Component 2, the first phase will finance the refurbishment of up to 5 existing facilities. The second phase may involve either rolling out the refurbishment of existing facilities in a larger number of locations or construction of new buildings for BPO centers based on the demand. This will be revisited at the time of appraisal to confirm the risk rating at that time. Environmental risks are expected to be temporary, typical and manageable, and associated with medium-scale construction works. Main impacts will be caused by the generation of dust, noise, and vibration; working of the construction vehicles and machinery; accumulation of demolition/construction waste, management of e-wastes; occupational health and safety risks associated with such construction etc. Addressing the risks, an Environmental and Social Management Framework (ESMF), and other instruments will be prepared prior to the appraisal.

Social Risk Rating is Moderate. At this point, project activities are not expected to require the involuntary acquisition of land. Should the need for land acquisition, however, emerge during preparation, a Resettlement Policy Framework will be developed to enable the project to appropriately identify, address and mitigate adverse socioeconomic impacts. Beyond land acquisition other social risks include the exclusion of vulnerable and marginalized groups from employment opportunities with the BPO companies and potential incidents of Sexual Exploitation and Abuse/Sexual Harassment during construction activities.

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APPROVAL

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