



Report No: PAD5313

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT  
ON A  
PROPOSED CREDIT

IN THE AMOUNT OF US\$50 MILLION

TO THE

REPUBLIC OF UZBEKISTAN

FOR AN

UZBEKISTAN DIGITAL INCLUSION PROJECT  
(P179108)

November 2, 2023

Digital Development  
Europe And Central Asia

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective October 31, 2023)

Currency Unit=	Uzbekistan Sum (UZS)
12233.91 UZS=	US\$1

## FISCAL YEAR

January 1 - December 31

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## ABBREVIATIONS AND ACRONYMS

AM	Accountability Mechanism
A4AI	The Alliance for Affordable Internet
ASA	Advisory Services & Analytics
BD	Bidding Document
BPO	Business-process outsourcing
CAGR	Compound Annual Growth Rate
COVID-19	Coronavirus Disease 2019 - formerly known as 2019 Novel Coronavirus (2019-nCoV)
CPF	Country Partnership Framework
CQS	Consultant's Qualifications Based Selection
DA	Designated Account
DFIL	Disbursement and Financial Information Letter
DP	Development Partner
DPO	Development Policy Operation
EC	Expert committee
ECA	Europe and Central Asia
ESF	Environmental and Social Framework
ESIA	Environmental and Social Impact Assessment
ESMF	Environmental and Social Management Framework
ESMP	Environment and Social Management Plan
ESRS	Environmental and Social Review Summary
ESS	Environmental and Social Standard
EU	European Union
FA	Financing Agreement
FDI	Foreign Direct Investment
FGFO	Foreign Government Financial Organization
FM	Financial Management
FS	Feasibility Study
GDP	Gross Domestic Product
GEMS	Geo-Enabling Initiative for Monitoring and Supervision
GHG	Greenhouse Gas
GNI	Gross National Income
GoU	Government of the Republic of Uzbekistan
GRID	Green, Resilient, and Inclusive Development
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
GSMA	GSM Association
GBV	Gender-Based Violence
HEIS	Hands-on Expanded Implementation Support
IE	Implementing Entity
IBRD	International Bank for Reconstruction and Development
ICS	Individual Consultant Selection
ICT	Information and Communication Technologies
IDA	International Development Association
IFC	International Finance Corporation
IFI	International Financial Institution
IFR	Interim Unaudited Financial Report
ILO	International Labour Organization
IM	Incentives Manual
IPF	Investment Project Financing

IPSAS	International Public Sector Accounting Standards
IRR	Internal Rate of Return
IT	Information Technology
ITO	IT outsourcing
ITES	IT-enabled services
ITU	International Telecommunication Union
HLO	High-Level Outcome
KPO	Knowledge-process outsourcing
LEO	Low Earth Orbit
LMP	Labor Management Plan
M&E	Monitoring and Evaluation
Mbps	Megabits per second
MDT	Ministry of Digital Technologies of the Republic of Uzbekistan (formerly Ministry of Information Technologies and Communications)
MEF	Ministry of Economy and Finance
MFD	Maximizing Finance for Development
NDC	Nationally Determined Contribution
NDS	National Development Strategy
NEET	Not in Education, Employment or Training
NPP	National Procurement Procedure
NPV	Net Present Value
PAD	Project Appraisal Document
PDO	Project Development Objective
PIU	Project Implementation Unit
POM	Project Operations Manual
PPDO	Project Procurement Development Objectives
PPL	Public Procurement Law
PPP	Public-Private Partnership
PPSD	Project Procurement Strategy for Development
PRAMS	Procurement Risk Assessment and Management System
QCBS	Quality- and Cost-based Selection
REFCA	Regional Engagement Framework for Central Asia
RFB	Request for Bids
RFP	Request for Proposals
RPF	Resettlement Policy Framework
SAI	Supreme Audit Institution
SEP	Stakeholder Engagement Plan
SMEs	Small and Medium Enterprises
SOE	State-Owned Enterprise
SOP	Series of Projects
STEM	Science, Technology, Engineering, and Mathematics
STEP	Systematic Tracking of Exchanges in Procurement
SWOT	Strength, Weakness, Opportunity and Threat
TA	Technical Assistance
ToC	Theory of Change
TOR	Terms of Reference
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WB	World Bank
WBG	World Bank Group





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**DATASHEET**

**BASIC INFORMATION**

Project Beneficiary(ies) Uzbekistan	Operation Name Uzbekistan Digital Inclusion Project		
Operation ID P179108	Financing Instrument Investment Project Financing (IPF)	Environmental and Social Risk Classification Moderate	

**Financing & Implementation Modalities**

<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Performance-Based Conditions (PBCs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made Disaster
<input type="checkbox"/> Alternative Procurement Arrangements (APA)	<input type="checkbox"/> Hands-on Expanded Implementation Support (HEIS)

Expected Approval Date 27-Nov-2023	Expected Closing Date 31-Jan-2030
Bank/IFC Collaboration No	

**Proposed Development Objective(s)**

To support digital inclusion by expanding access to skills and employment opportunities in the digital economy.

**Components**



Component Name	Cost (US\$)
Digital Inclusion and Enabling Environment	5,000,000.00
Development of country-wide regional infrastructure and incentives for ITES	35,000,000.00
Location Attractiveness Promotion	10,000,000.00

**Organizations**

Borrower: Republic of Uzbekistan  
 Implementing Agency: Ministry of Digital Technologies, IT-Park

**PROJECT FINANCING DATA (US\$, Millions)**

**Maximizing Finance for Development**

Is this an MFD-Enabling Project (MFD-EP)? Yes  
 Is this project Private Capital Enabling (PCE)? No

**SUMMARY**

<b>Total Operation Cost</b>	<b>50.00</b>
<b>Total Financing</b>	<b>50.00</b>
<b>of which IBRD/IDA</b>	<b>50.00</b>
<b>Financing Gap</b>	<b>0.00</b>

**DETAILS**

**World Bank Group Financing**

International Development Association (IDA)	50.00
IDA Credit	50.00

**IDA Resources (US\$, Millions)**





	Credit Amount	Grant Amount	SML Amount	Guarantee Amount	Total Amount
National Performance-Based Allocations (PBA)	50.00	0.00	0.00	0.00	50.00
<b>Total</b>	<b>50.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>50.00</b>

**Expected Disbursements (US\$, Millions)**

WB Fiscal Year	2024	2025	2026	2027	2028	2029	2030	2031	2032
Annual	1.00	5.00	15.00	12.00	10.00	6.00	1.00	0.00	0.00
Cumulative	1.00	6.00	21.00	33.00	43.00	49.00	50.00	50.00	50.00

**PRACTICE AREA(S)**

**Practice Area (Lead)**

Digital Development

**Contributing Practice Areas**

**CLIMATE**

**Climate Change and Disaster Screening**

Yes, it has been screened and the results are discussed in the Operation Document

**SYSTEMATIC OPERATIONS RISK- RATING TOOL (SORT)**

**Risk Category**

1. Political and Governance

2. Macroeconomic

**Rating**

● Substantial

● Moderate



3. Sector Strategies and Policies	● Substantial
4. Technical Design of Project or Program	● Substantial
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Substantial
7. Environment and Social	● Moderate
8. Stakeholders	● Substantial
9. Other	
10. Overall	● Substantial

**POLICY COMPLIANCE**

**Policy**

Does the project depart from the CPF in content or in other significant respects?

Yes  No

Does the project require any waivers of Bank policies?

Yes  No

**ENVIRONMENTAL AND SOCIAL**

**Environmental and Social Standards Relevance Given its Context at the Time of Appraisal**

E & S Standards	Relevance
ESS 1: Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10: Stakeholder Engagement and Information Disclosure	Relevant
ESS 2: Labor and Working Conditions	Relevant
ESS 3: Resource Efficiency and Pollution Prevention and Management	Relevant
ESS 4: Community Health and Safety	Relevant
ESS 5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
ESS 7: Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant



ESS 8: Cultural Heritage	Relevant
ESS 9: Financial Intermediaries	Not Currently Relevant

NOTE: For further information regarding the World Bank’s due diligence assessment of the Project’s potential environmental and social risks and impacts, please refer to the Project’s Appraisal Environmental and Social Review Summary (ESRS).

**LEGAL**

**Legal Covenants**

**Sections and Description**

Dated covenant: The IT-Park shall, not later than 90 days after the Effective Date, install and maintain throughout Project implementation a fully functional accounting software and the needed accounting and financial controls based on the accounting software (Section I.B.1(a)(iii) of Schedule 2 to the Financing Agreement).

Dated covenant: The IT-Park shall, not later than December 15, 2024, recruit, in accordance with the provisions of the Procurement Regulations, a firm that provides the services of one environmental specialist, one social specialist and one stakeholder engagement specialist for Project implementation (Section I.B.1(a)(iv) of Schedule 2 to the Financing Agreement).

**Conditions**

Type	Citation	Description	Financing Source
Effectiveness	Section 5.01(a) of the Financing Agreement.	The Subsidiary Agreement has been executed and delivered and is legally binding upon the Recipient, through the Ministry of Digital Technologies and the Ministry of Economy and Finance, and the IT-Park in accordance with its terms.	IBRD/IDA
Effectiveness	Section 5.01(b) of the Financing Agreement	The IT-Park has established a Project Implementation Unit in accordance with Section I.A.1(a)(ii) of Schedule 2 to the Financing Agreement.	IBRD/IDA
Effectiveness	Section 5.01(c) of the Financing Agreement	The IT-Park has adopted the Project Operations Manual in accordance with	IBRD/IDA



		Section I.C of Schedule 2 to the Financing Agreement.	
Disbursement	Section III.B.1(b) of Schedule 2 to the Financing Agreement	No withdrawal shall be made under Category (2) unless: (i) a verification agent and a payment agent have been hired in accordance with Section I.F.1(b)(iii) of Schedule 2 to this Agreement; (ii) the Incentives Manual has been prepared and adopted in accordance with Section I.D of Schedule 2 to this Agreement; (iii) at least one (1) Uzbektelecom Agreement has been signed and is in effect; and (iv) at least one (1) Facilities and Incentives Agreement has been signed and is in effect.	IBRD/IDA
Disbursement	Section III.B.1(c) of Schedule 2 to the Financing Agreement	No withdrawal shall be made under Category (3) unless at least one (1) Uzbektelecom Agreement has been signed and is in effect.	IBRD/IDA



## I. STRATEGIC CONTEXT

### A. Country Context

- 1. Uzbekistan is a mineral-rich, landlocked Central Asian country with significant longer-term challenges in creating high-productivity and inclusive employment.** With over 36 million inhabitants, it 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), but largely relying on a model driven by the state’s dominance in the economy, limited economic freedoms, and a restricted private sector. As a result, the country has struggled to reach its full economic potential and generate full employment, which triggered since 2017 the Government of the Republic of Uzbekistan (GoU) to implement wide-reaching economic and social reforms.
- 2. Despite global uncertainties and external challenges, structural reforms in Uzbekistan to date and effective economic management have helped maintain macroeconomic stability and an environment conducive for the next phase of structural reforms.** Uzbekistan maintained economic growth at 1.9 percent in 2020, with the growth rebounding to 7.4 percent in 2021. Stronger growth in construction and agriculture partly offset slower growth in industry and services. The largest impact in 2023 is expected from a slowdown in private consumption and investment growth due to a drop in remittances and weaker demand for Uzbekistan’s textile, food, and machinery exports in Russia.
- 3. 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 to more than 22 million. The population at the age of 0–9 is about 1.3 million, which means that Uzbekistan will have a significantly larger share of youth in the next decades. 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.
- 4. Incentive distortions have contributed to Uzbekistan’s low female labor force participation.** Female labor force participation is 28 percentage points below that of men, nearly twice the average gap in high-income countries (15 percentage points) and much higher than in comparator countries, such as neighboring Kazakhstan (12 percentage points). Gender norms in Uzbekistan often require women to assume responsibility for childcare and time-intensive household chores, such as fetching water, cooking, cleaning, working the garden, and caring for dependents. But despite low levels of labor force participation among women, respondents of the Listening to the Citizens of Uzbekistan Survey<sup>1</sup> say that a lack of jobs for women is just as pressing a challenge as the lack of jobs for men, on average.
- 5. A high share of youth struggle to enter the labor force or obtain further education.** Youth who are not in employment and not in education or in training (commonly referred to 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 challenges reported by youth are the scarcity of jobs and weak labor demand in rural areas, high informality, and low wages.<sup>2</sup>

<sup>1</sup> <https://www.worldbank.org/en/country/uzbekistan/brief/l2cu>

<sup>2</sup> World Bank report “Youth Employment in Uzbekistan: Opportunities and Challenges”, September 2021



6. **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)<sup>3</sup> builds on the successful completion of the Actions Strategy on further development of Uzbekistan in 2017-2021<sup>4</sup> and renews the GoU’s commitment to the economic transition. With the 2022-2026 NDS, the GoU has committed to cutting poverty in half by 2026 (the poverty rate stood at 14 percent in 2022<sup>5</sup>) and becoming an upper-middle-income country by 2030.

7. **Climate change presents substantial and immediate risks to Uzbekistan’s economic development.** Uzbekistan is at high risk for several climate-related threats and natural disasters, including high exposure to earthquakes, droughts, wildfires, floods, heat waves, landslides, and other dangerous phenomena. The United Nations (UN) estimates the average annual loss (AAL) from disaster events (all excluding droughts) to be US\$300 million (and US\$700 million with droughts).<sup>6</sup> Uzbekistan regularly experiences high maximum temperatures, with an average monthly maximum around 18.5°C, but with an average July maximum of 34.9°C. The frequency of heat waves has already risen, and the daily probability of a heatwave is projected to increase in Uzbekistan under all emissions pathways.<sup>7</sup> This is concerning as heat stress directly impacts workforce productivity.<sup>8</sup>

## B. Sectoral and Institutional Context

8. **By recognizing the critical role of digital development in Uzbekistan’s economic growth and job creation, the GoU has put digitalization high on its strategic agenda.** During the last five years, US\$2 billion was invested in the information and communication technologies (ICT) sector development, including foreign direct investments (FDI) of US\$700 million. Since 2020, the GoU made a large number of decisions on digitalization, including the adoption of the Digital Uzbekistan 2030 Strategy (“Strategy”) with five priority areas: (1) Digital infrastructure; (2) e-Government; (3) Digital economy; (4) Digital technologies national market; and (5) IT education. The digital economy’s contribution to Gross Domestic Product (GDP) is still low (1.9 percent as of 2021)<sup>9</sup>, and the share of ICT services in GDP is also low (1.6 percent as of 2021)<sup>10</sup> of which 90 percent are provided in Tashkent. With the Strategy, the GoU has plans to increase the size of the digital economy at least 2.5 times, 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.

9. **Uzbekistan has made progress over the past decade in improving the quality and access to Internet connectivity.** In the 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 122,000 km and increased its international Internet bandwidth to 3200 Gbps (93 kbps per person).<sup>11</sup> Fixed broadband household penetration reached 25 percent as of December 2022 (from 9.6 percent in 2016)<sup>12</sup> and the telecom market has experienced continuing price decreases for

<sup>3</sup> 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>

<sup>4</sup> 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>

<sup>5</sup> [uzdaily.uz/ru/post/75118](https://uzdaily.uz/ru/post/75118)

<sup>6</sup> Overviews of Uzbekistan’s vulnerability to climate-related natural hazards are provided on World Bank’s Climate Change Knowledge Portal (<https://climateknowledgeportal.worldbank.org/country/uzbekistan/vulnerability>), including in the Uzbekistan Climate Risk Country Profile (<https://climateknowledgeportal.worldbank.org/sites/default/files/2021-09/15838-Uzbekistan%20Country%20Profile-WEB.pdf>).

<sup>7</sup> <https://climateknowledgeportal.worldbank.org/sites/default/files/2021-09/15838-Uzbekistan%20Country%20Profile-WEB.pdf>

<sup>8</sup> [http://www.precaution.org/lib/noaa\\_reductions\\_in\\_labour\\_capacity\\_2013.pdf](http://www.precaution.org/lib/noaa_reductions_in_labour_capacity_2013.pdf)

<sup>9</sup> Open Data on Digital Economy from the State Statistics Committee of the Republic of Uzbekistan, <https://stat.uz/ru/ofitsialnaya-statistika/tsifrovaya-ekonomika>

<sup>10</sup> The Report of State Statistics Committee of the Republic of Uzbekistan “The production of the GDP (January – April 2021)”

<sup>11</sup> <https://mitc.uz/ru/news/4272>

<sup>12</sup> TeleGeography data, December 2022



international Internet access (around US\$2.7/Megabits per second (Mbps) in September 2022 vs US\$91.5 in 2016), in retail prices for the data-only mobile-broadband basket (US\$1.42 in 2021 vs US\$30 in 2016).<sup>13</sup> In November 2021, the GoU updated key targets on telecom infrastructure development.<sup>14</sup> In this regard, 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 the issuance of permits and signed a Memorandum of Understanding (MoU) with OneWeb to explore the potential provision of Low Earth Orbit (LEO) satellite broadband capacity.<sup>15</sup>

10. **Despite this progress, Internet adoption is low, while connectivity is insufficiently diversified due to its reliance on terrestrial transit bandwidth and dependence on neighboring countries.** Internet adoption remains low due in part to inadequate competition,<sup>16</sup> and dominant state-owned enterprises (SOEs) in the sector, compounded by an outdated legal, regulatory, and institutional framework with complex licensing and tax risks, and lack of regulatory independence, which stymies investment. Fixed broadband household penetration was more than triple the average for countries with a similar GDP per capita, while compared to the Central Asia neighbors Uzbekistan is behind Kazakhstan (37.2 percent), narrowly surpasses Kyrgyzstan and Turkmenistan (20.6 percent and 21.3 percent, respectively) and far outpaces Tajikistan (5.9 percent). Uzbekistan is one of the lower-level mobile penetration countries in the Asian continent with overall mobile penetration at 93.9 percent as of December 2022.

11. **Social and cultural norms are a significant factor in the digital gender gap,** which has been narrowing lately with 81 percent of men declaring themselves as Internet users at the end of 2021, compared to 73 percent of women, with a slightly smaller gap in rural areas (68.2 percent versus 65.7).<sup>17</sup> This is consistent with the overall pattern of gender imbalances, i.e. large differences in educational and health endowments, economic opportunities, and voice and agency, which are driven by economic factors (e.g., woman-headed households, comprising 20 percent of all households, are disproportionately poor, which constrains their ability to pay for Internet access)<sup>18</sup>, but also by social norms and cultural expectations.<sup>19</sup> Addressing gender disparities in the education (especially in Science, Technology, Engineering, and Mathematics, STEM) and promotion of women and girls in tech is especially important for Uzbekistan's long-term digital development. There are only 84 women for every 100 men in higher education institutions in Uzbekistan; women make up 11 percent of information technology (IT) university students, and 28 percent of those employed in the IT sector.

12. **Enhancing the sustainability and climate resilience of digital infrastructure is a priority, particularly in relation to promoting cybersecurity, data protection, and ensuring business continuity in the face of disasters.** Uzbekistan currently ranks 70<sup>th</sup> in the International Telecommunication Union's (ITU) Global Cybersecurity Index out of 184 countries<sup>20</sup> with lower scores received on technical and organizational measures. To address this challenge, the GoU adopted the Law "On cybersecurity" (the Law was approved by the Senate of the Oliy Majlis on March 17, 2022) and is developing a Cybersecurity Strategy for the 2023-2026 period and improving the country's cyberattacks monitoring system. Moreover, there is a need 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 digitalization. Finally, climate

<sup>13</sup> ITU, ICT Price Baskets 2021. The definition of "data-only mobile-broadband basket" is provided at <https://www.itu.int/en/ITU-D/Statistics/Dashboards/Pages/IPB.aspx>.

<sup>14</sup> <https://lex.uz/uz/docs/5735282>

<sup>15</sup> TeleGeography data, December 2022

<sup>16</sup> Two SOE mobile operators have also obtained licenses to operate an international gateway but have not yet launched the service.

<sup>17</sup> <https://www.itu.int/en/ITU-D/Statistics/Documents/statistics/2021/December/IndividualsUsingInternetByGender.xlsx>

<sup>18</sup> World Bank, "Second Systematic Country Diagnostic for Uzbekistan", April 2022. P. 105-106.

<sup>19</sup> <https://documents1.worldbank.org/curated/en/933471650320792872/pdf/Toward-a-Prosperous-and-Inclusive-Future-The-Second-Systematic-Country-Diagnostic-for-Uzbekistan.pdf>

<sup>19</sup> USAID, Digital Ecosystem Country Assessment, January 2022, p. 25. [https://www.usaid.gov/sites/default/files/documents/USAID\\_UzbekistanDECA.pdf](https://www.usaid.gov/sites/default/files/documents/USAID_UzbekistanDECA.pdf)

<sup>20</sup> ITU Global Cybersecurity Index 2021, <https://www.itu.int/epublications/publication/D-STR-GCI.01-2021-HTML-E/>



resilience of digital infrastructure would reduce downtime/service interruptions and enable service continuity in the event of climate disasters.

13. **The GoU is paying significant attention to promoting and supporting the creation of IT-enabled jobs, but the current ecosystem is still at an early stage.** The GoU made good efforts in the last four years, including the establishment of techno parks such as the IT-Park (with various tax and customs incentives and other benefits for its residents until January 1, 2028), 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), 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, including the IT-Park University, and the launch of a program to provide up to 50 percent compensation for the costs of obtaining international IT-certificates. There are currently 58 universities that have specialized IT courses (with 20 of 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. However, the current ecosystem of startups and digital entrepreneurship is still in an early development stage and the shortage of IT professionals is large.

14. **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)<sup>21</sup> and knowledge-process outsourcing (KPO)<sup>22</sup> services.** During the COVID-19, 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, whose worth jumped from US\$600,000 to US\$46 million in 2021 and US\$130 million in 2022 (of which 50 percent were related to BPO and 46 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 established IT outsourcing centers (17 centers in all regions, except Surkhandrya, and Tashkent city in 2022, and in each city/district level during 2023-2026), and BPO centers and BPO schools in all regions and districts to initiate skills development activities (e.g., digital skills and soft skills, including English foreign 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. In early 2022, the IT-Park under the Ministry of Digital Technologies (MDT) launched various programs, including expedited work visas (ITVisa)<sup>23</sup> 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.

15. **Against this background, the Project responds to the GoU’s request to support productive digital inclusion of youth, women, and other vulnerable groups by enabling employment in IT-enabled services (ITES) centers in**

<sup>21</sup> 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](#)).

<sup>22</sup> 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](#)).

<sup>23</sup> <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.





**Uzbekistan**, while promoting location attractiveness of Uzbekistan for ITES companies. The Project is included in the list of potential investment projects in Uzbekistan’s State Investment Program. The Feasibility Study (FS) for the Project was prepared, passed the reviews by the Ministry of Economy and Finance (MEF) and the Ministry of Investment, Industry and Trade of the Republic of Uzbekistan, and is planned to be approved in December 2023 through a Government resolution.

### C. Relevance to Higher Level Objectives

16. **The Project is consistent with the GoU’s strategic priorities, including the NDS and the Digital Uzbekistan 2030 Strategy.**<sup>24</sup> Supporting the development of a more inclusive digital economy will help the GoU achieve the political, social, and economic goals outlined in its NDS including its specific target to “increase the size of the digital economy by at least 2.5 times, making it the primary economic driver of the economy”. The Project will support the GoU’s aspirations to transform the country into a digital economy to unlock economic growth and job creation and attract private investments.

17. **The Project contributes to achieving the core strategic priorities of the World Bank Group’s (WBG) Country Partnership Framework (CPF) FY22-FY26 for Uzbekistan (Report No. 170931), which was discussed by the Board of Executive Directors on May 24, 2022.**<sup>25</sup> The Project supports CPF High-Level Outcome (HLO) 1 (Increase Inclusive Private Sector Employment), 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. 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.

18. **The Project supports green, resilient, and inclusive development (GRID) and the WBG Climate Change Action Plan.**<sup>26</sup> In support of the GRID agenda and WBG Climate Change Action Plan, the project will aim to (i) enhance climate change mitigation and adaptation, addressing country-specific climate risks across various activities (as outlined in the descriptions of individual components); and (ii) foster digital inclusion and job creation for vulnerable groups in Uzbekistan’s regions. By integrating digital skills activities, the project will support greater digital adoption for productive use, focusing on women to stimulate their active participation in the digital economy and close the digital gender gap.

19. **The Project contributes to the WBG Gender Strategy (FY16-23)<sup>27</sup> and the IDA-20 technology policy commitments.** The Project will support the first and second objectives of the Gender Strategy by financing digital and soft skills training to women in Uzbekistan’s regions and subsequently providing incentives to ITES firms to hire women. The Project will thus address the gender **digital** divide and support female employment in the ITES industry and the broader digital economy. These efforts to close the gender gap in digital technology access and use, along with the Project’s proactive targeting of persons with disabilities for improving their digital inclusion and employability to equally

<sup>24</sup> The Presidential Decree #UP-6079 “On approval of the Digital Uzbekistan – 2030 Strategy” (dated as of October 5, 2020), <https://lex.uz/ru/docs/5031048>

<sup>25</sup> World Bank Group, 2022. Uzbekistan - Country Partnership Framework for the Period FY2022-FY2026.

<http://documents.worldbank.org/curated/en/558271653576525839/Uzbekistan-Country-Partnership-Framework-for-the-Period-FY2022-FY2026>

<sup>26</sup> WBG. 2021. Climate Change Action Plan 2021–2025: Supporting Green, Resilient, and Inclusive Development. <https://openknowledge.worldbank.org/handle/10986/35799>.

<sup>27</sup> World Bank, 2016. the World Bank Group (WBG) Gender Strategy (2016-23): Gender Equality, Poverty Reduction and Inclusive Growth. <https://openknowledge.worldbank.org/handle/10986/23425>



participate in the digital economy, also directly contribute to key policy commitments under the IDA20 Technology cross-cutting issue, as documented in more detail in Annex 2.

20. **The Project is fully aligned with the WBG’s twin goals, the WB’s regional strategy for ECA<sup>28</sup>, as well as the Regional Engagement Framework for Central Asia (REFCA, June 2020).** The Project is aimed at increasing access to digital skills and employment by underprivileged population groups, particularly in rural and remote locations, which can have significant impact on achieving inclusive economic growth and addressing poverty. Through the promotion of human capital, digitally enabled jobs, social inclusion, and resilience to climate change-related events or disease outbreaks, the Project will also support the ECA region’s three main pillars. Furthermore, while the Project is national in scope, it is aligned with similar digital development projects in the Central Asia region and is thus aligned with the REFCA, which supports a long-term vision for Central Asia to become “aligned, borderless, cooperative, and data/digitally driven”.

21. **The Project is consistent with Paris Alignment.** The Project activities contribute to the transition of Uzbekistan towards a low carbon and climate resilient development trajectory, and show consistency with the country climate commitments including the country’s Third National Communication (NC) under the UN Framework Convention on Climate Change<sup>29</sup> and the most recent Nationally Determined Contributions (NDC) update<sup>30</sup> that contains a commitment of reduction of specific emissions of greenhouse gases (GHGs) per unit of GDP by 35 percent by 2030 from the 2010 level. The Third NC under the UN Framework Convention on Climate Change overall highlights that the ‘development of information and communication technologies (ICT) is becoming one of the priority directions for governmental policy of Uzbekistan’ while underscoring the special attention paid by the country to the installation and development of early warning systems preventing adverse hydrometeorological phenomena. The document recognizes that digital systems play an important role in analyzing large volumes of hydro-meteorological and other data; therefore, enhancing the digital infrastructure of the country will contribute to increasing the country’s resilience to climate change. As the increased digital inclusion will also improve vulnerable populations’ access to information and services, this will further improve the capacity of the country’s population to adapt to climate change, which is consistent with one of the adaptation measures in Uzbekistan until 2030 mentioned in the NDC – namely that of ‘raising awareness and improving access to information on climate change for all population groups.’

22. **Importantly, the project will apply Maximizing Finance for Development (MFD) principles<sup>31</sup> across all activities, to ensure that public interventions contribute to private sector development.** This will be achieved by supporting the development of legal and institutional bases and favorable business conditions for the development of BPO in Uzbekistan (under Component 1), while supporting skills development and job creation in the private sector and designing innovative financing mechanisms for the deployment of broadband connectivity in rural areas (Components 1 and 2).

## II. PROJECT DESCRIPTION

### A. Project Development Objective (PDO)

#### PDO Statement

23. To support digital inclusion by expanding access to skills and employment opportunities in the digital economy.

<sup>28</sup> <https://www.worldbank.org/en/region/eca/overview#2>

<sup>29</sup> Third National Communication of the Republic of Uzbekistan under the UN Framework Convention on Climate Change. Tashkent, 2016 (<https://unfccc.int/documents/89246>).

<sup>30</sup> <https://climatepromise.undp.org/what-we-do/where-we-work/uzbekistan>

<sup>31</sup> The MFD objective is to mobilize private finance enabled by upstream reforms and public funding, where necessary, to address market failures and other constraints to private investments.



## PDO Level Indicators

The proposed PDO-level indicators are:

### *Expand access to skills for the digital economy*

- Beneficiaries who have completed digital and soft skills training (obtained a certificate) under the project (number), of which women and persons with disabilities (number).

### *Expand access to employment opportunities in the digital economy*

- Beneficiaries who have been employed by IT-enabled services (ITES)<sup>32</sup> companies (number), of which women and persons with disabilities (number).
- Beneficiaries who have increased earnings as a result of the digital and soft skills training received (percentage).

24. **The Project will include a range of intermediate results indicators:** (i) strategic framework for the ITES industry is strengthened; (ii) ITES Strategy adopted, (iii) number of ITES Centers in the regions established and operational; (iv) number of business promotion representation offices set up, (v) percentage of Project beneficiaries who are satisfied with the digital and soft skills training received; (vi) number of ITES companies that entered the market.

25. The beneficiaries include the youth (defined as young people between 18 and 30 years old, in line with the national definition) vulnerable to unemployment and at risk of being left out of the digital economy. A strong focus will be made on involving beneficiaries residing in the regional and district capitals of Uzbekistan. Digital economy is defined as the use of digital technologies to create or adapt, market or consume goods and services. The baseline and target values for the PDO-level and intermediate results indicators as specified in Section VII, including those related to the outcomes for women and persons with disabilities, have been established by the FS carried out by the GoU, considering the results of the engagement with beneficiary groups and the experience of comparator countries.

## B. Project Components

26. **The Project is aimed to fundamentally change the landscape of IT-enabled industry in Uzbekistan,** through a fast-tracked development of the BPO/IT outsourcing (ITO) and KPO industry. The Project will catalyze overall economic transformation as ITES has the potential to create new employment opportunities, attract foreign investment, and generate revenue for the host country. It will also ensure skills upgrading as ITES requires a skilled labor force. The companies that choose to invest in Uzbekistan will bring new standards and competencies that will lead to knowledge transfer. Technology transfer may be also another spillover effect as ITES investors tend to expose local labor to new technologies resulting in transfer of experience in using them. A successful ITES industry will help improve the perception of the country as a business-friendly destination and could lead to further increase of foreign investment and jobs.

27. The Project is designed with a flexibility that will make it possible to adjust the design to the emerging trends of a rapidly transforming technological field and the realities and needs of industry development in Uzbekistan. The Project is designed in two phases: the first phase will allow piloting of the proposed interventions and will put in place a foundation necessary for industry development, such as legal and regulatory frameworks, enabling environment, strategy, and basic skills availability. During the second phase successful models will be implemented in their entirety.

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<sup>32</sup> ITES industry includes export-oriented IT firms such as BPO, KPO, and ITO (IT outsourcing).



28. **The Uzbekistan Digital Inclusion Project is the first operation to support the development of the digital economy in Uzbekistan in line with the “Digital Uzbekistan 2030 Strategy” and “Development Strategy of New Uzbekistan for 2022-2027”.** The priority for the Project is the creation of new digital jobs in the ITES segments, particularly targeting regional areas, and including digital job creation for youth, including women and persons with disabilities. The 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.

29. **The 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 ITES 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 (iii) expand infrastructure for ITES industry in the regions of Uzbekistan; and (iv) support mechanisms for promoting Uzbekistan as an outsourcing destination.

30. **The Project aims to create new digital jobs, improving the employability of its beneficiaries, help generate economic benefits from increasing their employment rates and placing them in jobs with higher earnings.** Academic research shows that people who acquire digital skills experience an increase in annual earnings of between 3-10 percent.<sup>33</sup>

31. **The Project is divided into two distinct phases.** The first phase will be implemented during the first three years and will ensure that the foundational aspects of ITES industry support have been put in place. This includes a strategic framework for ITES industry development in the country, basic digital and language skills training of the most disadvantaged, a comprehensive market analysis, and development of an ITES strategy supported with a robust industry promotion consisting of a marketing campaign and establishment of international industry promotion representation offices abroad. The pilot centers for ITES will be also implemented in the regions during the first phase and the success of the pilot will drive the decisions on the type of infrastructure investments to be made in the second phase. During the second phase, investments will be made into regional infrastructure and incentives for the ITES companies with signed multiyear contracts (e.g., that consider employment of a certain number of people from target groups by ITES companies, for instance, for 2-3 years, and would then be eligible to receive state incentives).

32. The criteria for transitioning from phase 1 to 2 will consist of: (i) 70 percent occupancy rate of ITES centers refurbished during the first phase, (ii) 80 percent of fund allocation for the incentives program under the first phase is fully disbursed. Not meeting these criteria will trigger a reassessment of the design and a reallocation of funds. Proof of concept is needed for refurbishment of centers given the risk that investors will prefer newly constructed centers and if refurbished centers do not meet their needs. Prioritization of certain regions is also possible based on the results of the first phase. If there is a limited demand for incentives, they may also be reallocated towards other activities during the second phase.

**Table 1. Project Components and Activities**

Components	Description of key tasks and activities	TOTAL (US\$ M)	Phase 1 Y1-3	Phase 2 Y1-6
Component 1:	1.1. Digital and soft skills for the most vulnerable groups	3.7	3.7	

<sup>33</sup> Center for Economics and Business Research, 2015. The Economic Impact of Basic Digital Skills and Inclusion in the UK. <https://www.goodthingsfoundation.org/wp-content/uploads/2021/02/the-economic-impact-of-digital-skills-and-inclusion-in-the-uk-final-v2.pdf>



Digital Inclusion and Enabling Environment	1.2. Modernization of the legal, regulatory, and institutional framework for the development of IT enabled industries and financial mechanisms for broadband deployment in rural areas	1.3	1.3	
Total Component 1		<b>5.0</b>	5.0	
<b>Component 2:</b> Development of country-wide regional infrastructure and incentives for ITES	2.1. Incentives (professional training, equipment, operational cost)	16.0	7.0	9.0
	2.2. Construction and renovation of ITES Centers	19.0	4.0	15.0
Total Component 2		<b>35.0</b>	11.0	24.0
<b>Component 3:</b> Location Attractiveness Promotion	3.1. ITES Industry Promotion and Location Attractiveness. Setting up of international representation offices to promote the “Digital Uzbekistan” brand	4.0	4.0	
	3.2. ITES Strategy and Institutional Development. Development of ITES Strategy and capacity for ITES transactions, incentive packages and marketing	4.0	4.0	
	3.3. Support for the Project Implementation Unit (PIU)	2.0	1.0	1.0
Total Component 3		<b>10.0</b>	9.0	1.0
<b>TOTAL PROJECT COSTS</b>		<b>50.0</b>	25.0	25.0

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

33. Under Component 1, the Project will mainly focus on the establishment of a solid foundation, such as regulatory frameworks and skills for the development of the ITES industry in Uzbekistan. The component will finance capacity building activities to produce a large pool of qualified labor equipped with necessary digital and soft skills, particularly targeting women and youth in NEET (aiming for a participation level of 50 percent women) as beneficiaries. It will support development of legal and regulatory frameworks to support ITES industry growth in the country and is set to develop a country strategy for attraction of investments.

**Sub-component 1.1: Skills Development (up to US\$3.7 million)**

34. This sub-component will support activities aimed at improving the digital and soft skills of underemployed or unemployed youth including women, as well as persons with disabilities with the aim of expanding the pool of human resources eligible to apply for newly created jobs. Trainings will be provided in main skill areas such as communications skills, computer skills, and languages. The intent is to initially deliver English language trainings and potentially add other languages based on the emerging demand from ITES companies. More advanced skills development, linked to ITES technical skills requirements, will take place under Component 2. Hybrid delivery of the trainings (both on-site and online) will be enabled to accommodate the needs of the targeted disadvantaged groups and to account for the situations when travel to the training sites is not possible, due to climate-related disasters such as heat waves or floods. In recognition of the difficulties of engaging women and persons with disabilities in the trainings under this sub-component, a special marketing and awareness-building campaign targeting them will be conducted to incentivize them to take part in the trainings. The Project aims to train and certify 6177 people countrywide throughout the project duration. These trainees will be eligible to apply for the job opportunities created under Component 2 through the provision of incentives. The IT-Park will serve as a facilitator between trained candidates and the prospective ITES companies. Three modes of facilitation are being proposed: (i) all CVs of trained candidates will be placed on the IT Market Platform (already in existence) that is



being used as a resource base by ITES companies and prospective employees, (ii) the IT-Park will share CVs of trained candidates with IT-Park export oriented residents, and (iii) the IT-Park will share the CVs with the interested companies reaching out to representation offices.

**Sub-component 1.2: Modernization of Legal, Regulatory and Institutional Frameworks (up to US\$1.3 million)**

35. Under this sub-component, the Project will further improve the institutional, legal, and regulatory framework to enable a favorable business environment for private investment in the ITES industry. It will also provide broader support for the development and modernization of the legal and regulatory framework for the digital economy, with a specific emphasis on inclusion and focus on making it climate-informed and ensuring modern enablers and safeguards for data management, intellectual property protection, company registration, data protection, and cybersecurity to engender a stronger trust in digital transactions. The Project will also support the design of innovative financial mechanisms to attract private investment for the deployment of broadband in rural areas. In doing so, the Project will supplement existing GoU efforts in improving rural broadband connectivity.

36. The main investments of Sub-component 1.2 will go towards: (i) establishing legal and institutional bases for the development of the ITES sector in Uzbekistan; (ii) creating favorable business conditions for the expansion and growth of existing ITES companies in the country, as well as an increase in the number of local ITES companies, (iii) support and stimulation of entry of local ITES companies into foreign markets, (iv) creation of conditions for the training of qualified personnel in the field of ITES, (v) improving legal and regulatory frameworks to create favorable conditions for increasing the attractiveness of the ITES market in Uzbekistan for foreign investors, applicable to the ITES infrastructure and rural connectivity, (vi) designing innovative financial mechanisms to attract private investment for the deployment of broadband in rural areas, including through public-private partnerships (PPPs), and leveraging private investments compliant with the requirements for climate change mitigation and adaptation, and for disaster response. The project will emphasize minimization of energy consumption, carbon footprint, and e-waste from ICT usage. Sub-component 1.2 will support development of a climate-informed digital infrastructure policy and regulatory guidelines focusing on reduction of energy consumption by the digital sector and reducing GHG emissions from e-waste through recycle, repair, and reuse practices. Additionally, provisions for a hybrid work regime (such as under Sub-components 1.1 and 2.1) will be integrated into the project, which will reduce travel needs of the training participants and BPO/ITES workers that will further reduce carbon emissions of the project activities. The guidelines will also prioritize assessment of climate risks of the ITES/broadband infrastructure and ensuring compliance of digital infrastructure with climate-resilient standards that can withstand the impact from floods and extreme weather events.

**Component 2: Development of country-wide regional infrastructure and incentives for ITES (up to US\$35 million)**

37. This component will finance incentives to private companies with legal entities in Uzbekistan to encourage creation of employment in ITES among youth and specifically employment of women and persons with disabilities. The component will also establish regional ITES Centers by refurbishing up to 11 buildings to be repurposed for use by ITES companies.

**Sub-component 2.1: ITES Incentives Program (up to US\$16 million)**

38. International experience shows that countries that create financial and business environment incentives attract more investments into the ITES industry and can position themselves as a key ITES global player. The analysis of Uzbekistan's attractiveness level showed major gaps in both infrastructure and skills available on the market. Sub-component 2.1 will finance ITES incentive schemes that will make Uzbekistan more attractive from the perspective of the available labor market to prospective investors.





39. The Project will support demand generation through financing of a program of incentives and preparing necessary office spaces in the regions for the incoming ITES companies with the objective of creating jobs in the regions of Uzbekistan. Specifically, the incentive package will include conditional financing of ITES companies in the maximum amount of US\$2000 for hiring each eligible beneficiary and providing sector-specific training. The eligible ITES companies will receive conditional financing, and their eligibility will be assessed in line with the Incentives Manual (IM) which will define the eligibility criteria, such as: (i) be registered as a legal entity in Uzbekistan, (ii) be a resident of the IT-Park, (iii) have presence in the regions, etc. Selection of eligible companies will be undertaken by the expert commission established by MDT and facilitated by the IT-Park, all in line with the IM.

40. Conditional financing will be provided in the amount of up to US\$2000 per job created and filled for the duration of one year. Additional incentives will be provided to the ITES companies that reach the threshold of 50 percent women and 4 percent of persons with disabilities among their new hires. The incentives will be disbursed annually against outputs once they have been achieved. The implementing entity (IE) will recruit a verification agent and a payment agent to administer payments after confirming that the eligible firms are legal entities registered in the territory of the Republic of Uzbekistan, that the eligible beneficiaries are youth, and ensure that (1) the maximum amount of an incentive shall be up to US\$2,000 per youth hired per year; and (2) the obligation of each eligible firm to comply with the following conditions to be eligible to receive an incentive: (i) hire eligible beneficiaries in accordance with local labor laws and for at least a period of one year; and (ii) provide sector specific capacity building to the hired eligible beneficiaries.

41. During the first three years of the project this approach will be piloted and adjusted based on demand. Most investments under this sub-component will be disbursed during the last three years of the project. These efforts coupled with activities under Component 3, will stimulate more global service companies to choose Uzbekistan as a location.

### **Sub-component 2.2: ITES Infrastructure Development (up to US\$19 million)**

42. Sub-component 2.2 will finance upgrading of physical infrastructure in the regions necessary to host the ITES companies. It is planned to refurbish up to 11 ITES Centers. During the first phase, the Project will finance refurbishment of not less than 5 existing Uzbektelecom facilities and based on the demand, the second phase will finance the remaining Centers. The Centers will be established across the regions of Uzbekistan. A facility management company will be recruited to address all maintenance issues of the refurbished Centers.

43. The selected facilities will be made available by Uzbektelecom for use by the IT-Park at no cost for the agreed duration. Both parties will enter into an agreement allowing the IT-Park to manage the ITES Center facilities for not less than 6 years. The IT-Park will make arrangements to ensure sustainability and continuity of the utilization of ITES Centers beyond project closure years, allowing the ITES companies to provide an opportunity to locate at the ITES Center at no cost for the duration of 6 months and afterwards rent the facilities at a market rate. Currently, there is a severe shortage of available office space in the regions, and the establishment of the Centers will address a critical need in the ITES space. The Centers will be located in refurbished buildings that meet the requirements of fire safety, international best practices on energy efficiency, and sanitary standards established by the legislation of the Republic of Uzbekistan and will not require additional sanitary improvements.

44. Refurbishment construction of the facilities will incorporate the best possible lower GHG/energy efficiency measures suggested in Uzbekistan's energy efficiency standards that are economically and technically feasible. The corresponding investments will be designed to adapt to the natural hazards identified in Paragraph 7, in order for the ITES infrastructure to be resilient to adverse weather events and for business continuity in the face of disasters to be ensured, thus contributing to climate risk adaptation. Specifically, the renovation design will involve using disaster-proof, heat-



resistant, and energy-efficient materials, improved drainage, and putting in place early warning systems and emergency communications. On the mitigation side, the infrastructure development will follow a low-carbon pathway. This includes low carbon/energy efficiency measures, as mandated by the applicable national legislation and in line with international best practices. The renovation design will also meet necessary accessibility requirements for persons with disabilities. Furthermore, similar to Sub-component 1.1, the Project will provide additional incentives to provide flexible options to women and persons with disabilities considering their preferences and constraints as well as situations when travel to the ITES centers is not feasible due to heat waves, floods, or other natural disasters.

### **Component 3: Location Attractiveness Promotion (up to US\$10 million)**

45. 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 of attracting global ITES companies and private entrepreneurs into the ITES market in Uzbekistan. This component will also finance in-depth global market analysis and development of the ITES strategy that will guide strategic decisions around selection of target sectors and regions as well as fine-tuning of the incentives package and development of promotion materials. The IT-Park will also further advise on the needed skills and alignment of trainings under Sub-component 1.1. This strategy will also define climate mitigation and adaptation measures and standards for refurbishment and construction of ITES Centers. Also, this component will support IT-Park capacity in handling ITES transactions and negotiations with potential investors. In addition, it will further advise on the needed skills and alignment of trainings under Sub-component 1.1.

#### **Sub-component 3.1: ITES Industry Promotion and Location Attractiveness (up to US\$4 million)**

46. Sub-component 3.1 will finance establishing institutional capacity for working with both local ITES and investor companies and positioning Uzbekistan as an attractive location on a global ITES map. The envisioned modalities would include the following: (i) an ITES marketing and negotiations team within the IT-Park, and (ii) ITES Representation offices abroad in a select number of countries (3-5). The representation offices will be critical for promoting the ITES brand of Uzbekistan. They will be operating under direct oversight of the IT-Park and will work closely with the IT-Park's ITES team. The representation offices will be responsible for (I) attracting ITES orders from foreign clients to position IT enabled service delivery in Uzbekistan; (ii) attracting foreign ITES companies to enter the Uzbek market, and (iii) strengthen awareness and the image of Uzbekistan as an ITES destination by financing the development of marketing strategy and promotion materials. The project will finance the rent of premises and operating costs and expenses of maintaining an ITES promotion representation during the first phase of the project for the duration of 2 years. During the subsequent years operational expenses of the representation offices will be maintained by the IT-Park.

#### **Sub-component 3.2: ITES Strategy and Institutional Development (up to US\$4 million)**

47. This sub-component will finance multistakeholder ITES Strategy development activities that will undertake a comprehensive Strength, Weakness, Opportunity and Threat (SWOT) analysis and guide strategic decisions on target countries, ITES segments (e.g., logistics, finance, data entry and processing, etc.), and needed adjustments to existing incentives and skills development initiatives. The Strategy will also advise on needed institutional structures, capacity, and research capabilities within the IT-Park in order to support effective industry development and promotion as well as operational aspects of managing relations with the potential investors. The development of the Strategy will involve multiple stakeholders across the government, private sector, academia, and relevant agencies responsible for overseeing women's affairs and addressing the needs of persons with disabilities. The Strategy will also incorporate climate change adaptation and mitigation measures. Specifically, it will ensure that the refurbishment of facilities to host ITES centers involves compliance with best international standards of energy efficiency and adoption of requirements to follow climate proof, heat resilient, and low-carbon materials. The Strategy would also include guidelines on design and configuration of





digital/IT systems for adapting to climate-related risks and providing automated backup and disaster risk recovery to avoid data loss and enable business continuity in the event of extreme weather conditions.

### **Sub-component 3.3: PIU Support (up to US\$2 million)**

48. Sub-component 3.3 will support hiring of PIU core personnel on term-based contracts, including a project manager, a procurement specialist, and a financial management (FM) specialist at the IT-Park, as well as additional specialists and staff, including project coordinators for each project component with relevant technical skills, a procurement assistant, an M&E specialist, an accountant, an office manager/translator, and support staff. This team of specialists will be responsible for coordination and reporting on different activities under the Project.

### **C. Project Beneficiaries**

49. **The Project is expected to benefit a wide range of citizens, and businesses, as well as the public sector.** At the macro level, the Project will support increased economic growth and job creation, with a corresponding increase of tax revenues. The Project will benefit the following distinct groups.

50. **At the individual level,** the Project will target youth<sup>34</sup> as an underprivileged group at risk of being left out of the digital economy. A special focus will be made on ensuring involvement of the country regional and district centers and on targeting women and persons with disabilities. Component 1 will support participation of youth in the ITES industry through (i) targeted informational campaigns to mobilize participation in the digital inclusion training program; (ii) organizing activities during convenient times of the day and at safe locations, and offering training sessions targeting specific vulnerable groups (e.g. women in rural areas, persons with disabilities); (iii) engaging with appropriate mentors and role models to increase participants' and community awareness on the impacts of empowering workers from the vulnerable groups; and (iv) working through civil society organizations to design and implement activities.

51. **Furthermore, the youth will benefit from employment in ITES firms induced by the incentive mechanism** (Component 2) as well as generated through a broader expansion of the ITES industry triggered by the GoU incentives and improved location attractiveness of Uzbekistan. In addition, increased employability will imply improved opportunities to become employed and increase their earnings beyond the ITES sector. Enhanced digital inclusion will also improve vulnerable populations' capacity to adapt to climate change with better access to information and services (e.g., disaster early warning, agro-meteorological information, etc.) to cope with climate variability and shocks.

52. **The private sector** will benefit from an improved legal and regulatory framework for ITES business development supported by the project, availability of a larger pool of trained labor force (Component 1), a set of incentives for ITES firms, and from the establishment of BPO centers with renovated office space to enable development of their business (Component 2). Finally, Component 3 will enable better strategic guidance and focus policy actions to support ITES business development in Uzbekistan, which will benefit the private sector, including small and medium enterprises (SMEs).

53. **The public sector** will benefit through strengthened capacity to attract local and global ITES companies and private entrepreneurs into the ITES market in Uzbekistan and in managing ITES transactions (Components 2 and 3). Finally, the public sector will benefit from improved capacity to attract private investment for the deployment of broadband in rural areas, since Component 1 will support preparation of a detailed design of innovative financial mechanisms for this purpose, including PPPs.

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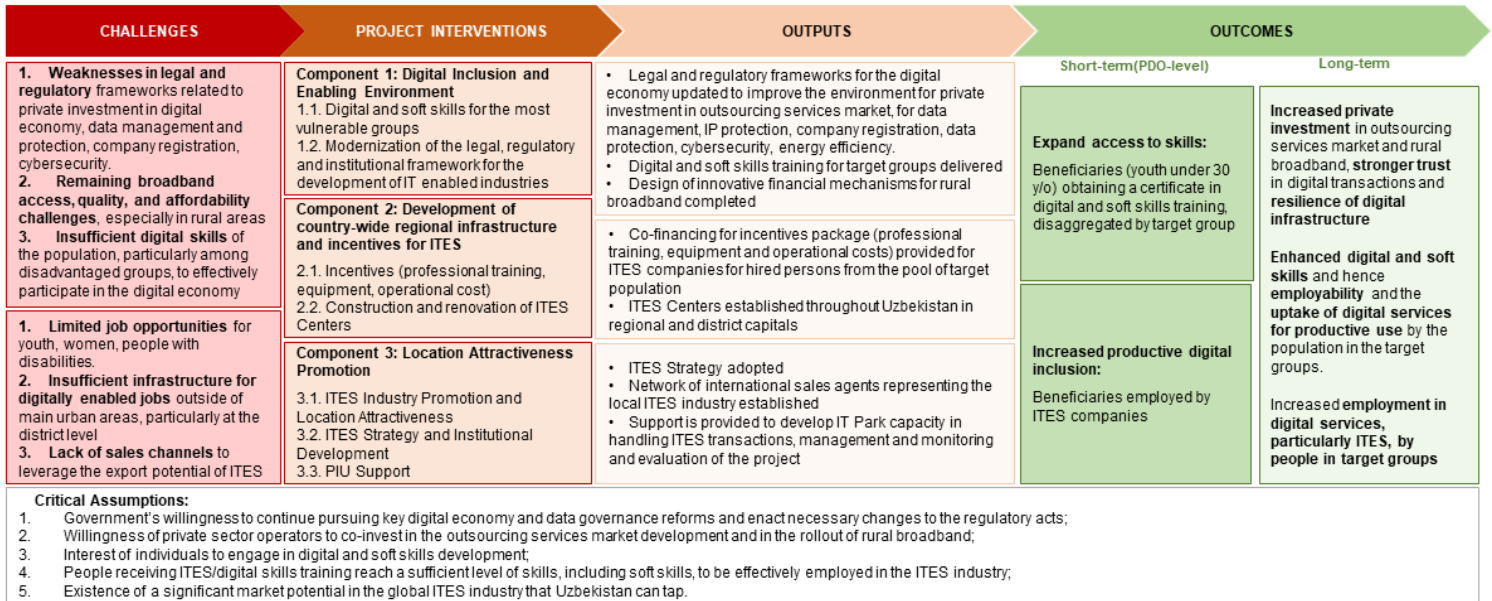
<sup>34</sup> Youth are defined for the purposes of this Project as young people under the age of 30 (in line with the national definition).



**D. Results Chain**

54. Figure 1 below outlines the theory of change of the proposed operation.

**Figure 1. Theory of Change (ToC)**



**E. Rationale for Bank Involvement and Role of Partners**

55. **The WB is well-positioned to support digital inclusion in Uzbekistan, given its technical expertise in all these domains and extensive experience in leading similar projects around the world.** There is a strong rationale for public financing across all the Project components. Establishing a strong legal and regulatory enabling environment for the digital economy, developing sound infrastructure in a way that crowds in private sector investment, and promoting skills development and job creation are all core government functions.

56. **The proposed investments on both the supply side and the demand side are public goods that will benefit the citizens of the Republic of Uzbekistan in a non-discriminatory manner.** Developing the digital skills of the population is critical in order to facilitate the creation of new employment opportunities outside of the main urban centers.

57. **Public resources are therefore essential to ensuring an inclusive digital economy.** Even in the most advanced, competitive telecoms markets, there is a need for public intervention to ensure access to broadband in rural areas and among the most disadvantaged populations.

58. **The Project will seek synergies with other digital development projects in Central Asia that are currently under preparation or implementation,** namely the Digital CASA – Kyrgyz Republic Project (P160230), the Kazakhstan Digital Acceleration for an Inclusive Economy (DARE) Project (P179204), and the Tajikistan Digital Foundations Project (P171382).

59. **The Project fits well within the existing portfolio of WB operations in Uzbekistan.** Activities under the Project will enhance the legal and regulatory environment for the digital economy and digital inclusion, and this will be aligned with potential policy actions under Development Policy Lending. Furthermore, close cooperation will continue with other WB projects.



60. **The Project will be aligned with existing Advisory Services & Analytics (ASA) tasks and other DPs' activities.** One of the key ASAs linked with the project addresses implementation of the Convention on the Rights of persons with disabilities in Uzbekistan and utilization of digital instruments for better access of persons with disabilities to employment. Close collaboration will also take place most notably with United Nations Development Programme (UNDP) Uzbekistan, United States Agency for International Development (USAID), KfW Development Bank, and the Delegation of the European Union (EU) to the Republic of Uzbekistan to explore effective synergies. Specifically, the findings of a UNDP-financed ongoing assessment of the IT market and digital entrepreneurship in Uzbekistan will be leveraged and alignment of the Project-supported investment with EU-financed activities in the areas of digital green transition and digital skills development (as reflected in the Multi-Annual Indicative Plan for the EU's cooperation with Uzbekistan) will be sought.

#### F. Lessons Learned and Reflected in the Project Design

61. **The design of the Project's activities is informed by the experience of the WB in supporting digital acceleration programs globally.** The Project benefits from the experiences and lessons learned with many relevant WB-financed digital development projects, such as the Armenia e-Society and Innovation for Competitiveness Project (P115647), the Mexico Information Technology Sector Development Project (P106589), the Moldova Governance e-Transformation Project (P121231) among others.

62. Of particular relevance were key lessons from **the Armenia e-Society Project**, which include the importance of applying a well-elaborated financial intermediary approach in channeling government incentives to private sector firms, as well as following a phased approach in implementing a complex project of a highly innovative nature, involving mechanisms that were not previously utilized in the country.

63. The lessons from **the Mexico Information Technology Sector Development Project** include the importance of a strong private sector participation for effective interventions targeting the ITES industry, as well as of English language skills training as part of capacity-building to enable IT industry competitiveness.

64. **Other important lessons from the above projects include: are as follows:** (a) legal and regulatory reforms need to precede or be well advanced for project-financed investments; (b) despite the high costs associated with hiring quality people, a strong operating/management team is critical to project success; (c) targeted community mobilization efforts are needed to ensure that youth, women, and persons with disabilities are encouraged and supported by their families to participate in skills development programs and to seek digital economy jobs.

### III. IMPLEMENTATION ARRANGEMENTS

#### A. Institutional and Implementation Arrangements

65. **The MDT<sup>35</sup> ([www.digital.uz](http://www.digital.uz)) performs the function of the project initiator<sup>36</sup>, given the focus of the project. The IT-Park (founded in 2019 by the MDT, which owns a 100 percent share) will serve as the IE.** While the Project is fully

<sup>35</sup> Formerly Ministry of Information Technologies and Communications. The Ministry's name was changed in late 2022.

<sup>36</sup> "Project initiator" is the term adopted in the Resolution of the President of the Republic of Uzbekistan "On measures to improve the efficiency of preparation and implementation of projects with the participation of international financial institutions and foreign governmental financial organizations" of July 16, 2018. It is used with reference to "state bodies, budget organizations, and other legal entities initiating the



under the mandate of the MDT and the IT-Park directly, its multifaceted scope will require coordination among various government agencies to support implementation of individual components of the Project (including Ministry of Employment and Poverty Reduction, Ministry of Higher Education, Science, and Innovation, etc.)

66. **MDT will coordinate the implementation of the Project at the national and local levels and will also act as the policy-making body to ensure the development of ITES industry and enhancing digital skills in Uzbekistan.** The main role of the MDT will be the preparation of strategic and policy documents related to the ITES industry and overall digital economy development and the organization of their discussion at the national, regional, and local levels, as well as the coordination of the ITES strategy implementation at the regional and local levels. Within the existing potential of knowledge and information resources, the MDT will develop and implement a communication strategy for supporting the Project at the national, regional, and local levels. In addition, the MDT will provide financial control, organizational support in the organization of all project activities, and the organization of the Project's annual results monitoring. MDT will carry out regular supervision of the progress of the measures implemented under the Project for the above components. These activities will be financed by MDT funds. For project implementation, the MDT together with the PIU will organize the involvement of external expertise through participation in the development of technical tasks and the selection of consultants and will provide technical expertise for the acceptance of their reports and the corresponding implementation of their best practices. In addition, the MDT will provide necessary technical expertise on all the components presented in the relevant procurement of goods, works, and services through participation in the development of relevant specifications and participation in tender commissions. By the order of the MDT, a Deputy Minister is appointed as the Project Coordinator who is responsible for executing the above MDT functions with regard to the Project and will regularly prepare information on the progress of the Project to the Minister.

67. **A PIU will be established within the IT-Park.** The PIU, to be maintained in the form, authority, and with required staff and resources acceptable to the Bank throughout project implementation, will provide overall project coordination and implementation support, including implementation planning, technical supervision, fiduciary management (FM, and procurement), environmental and social safeguards implementation, and monitoring and evaluation (M&E).

68. **The IT-Park will hire core personnel on term-based contracts, including the PIU Director / Head of PIU, a procurement specialist, and a FM specialist.** The PIU will be supported by additional specialists and staff, including project coordinators for each project component with relevant technical skills, a procurement assistant, an M&E specialist, an accountant, and support staff. These specialists will be responsible for coordination and reporting on different activities under the Project. The Head of PIU (reporting to the IT-Park and the Project Coordinator) will be responsible for the overall supervision of project implementation, withdrawal of funds for the PIU, and PIU staffing. All staff and consultants of the PIU will report to the Head of PIU. The reporting requirements for each PIU staff and consultants will be defined in their individual terms of reference (TOR). The structure of PIU reporting will be developed by the Head of PIU within an agreement with the MDT and the WB. All decisions on the operational management of PIU, including reporting, operating expenses, and organizational and personnel issues will be formalized by internal orders of the PIU. The recruitment will be carried out in accordance with WB standards and procedures for hiring of local consultants. The Project will finance the activities of PIU staff and short-term consultants, including the operational costs of the Project. Detailed roles and responsibilities, and terms of engagement (including of key project implementing partners), and processes and procedures for implementing, monitoring, and evaluating the Project as well as ensuring compliance with WB policies will be captured in the Project Operations Manual (POM), which is expected to be finalized before Project effectiveness.

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implementation of the project with the participation of International Financial Institutions (IFIs)/ Foreign Government Financial Organizations (FGFOs)" (<https://lex.uz/ru/docs/5698991>).

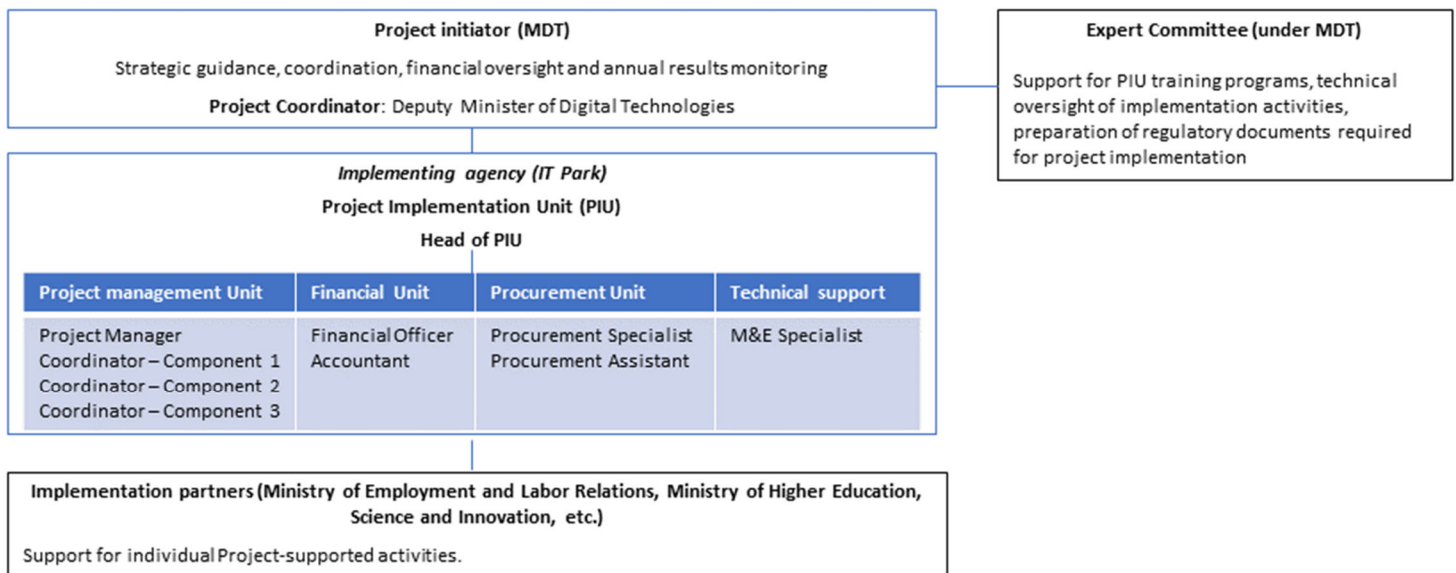


69. Some of the key team members have already been hired by the IT-Park to perform the above functions and currently operate as a working group, pending formal establishment of the PIU. The working group is responsible for project preparation and drafting key project preparation documents, including FS, Project Procurement Strategy (PPSD), Procurement Plan (PP), POM, and other corresponding documents to comply with the Environmental and Social Framework (ESF).

70. An Expert committee (EC) will be established by the MDT to support key areas of Project implementation. EC will include relevant MDT staff that will work under the leadership of relevant deputy ministers at the MDT. EC decisions come into force after approval by the Project Coordinator and, if necessary, upon the WB’s endorsement. The PIU will provide organizational assistance for the work of the EC. The EC will review and approve reports prepared as part of Project implementation and PIU training programs and will prepare the regulatory documents required for Project implementation. The PIU will also interact with structural divisions of the MDT who will assist on matters related to, and provision of information necessary for, the Project implementation.

71. The overall implementation capacity of the IT-Park has been assessed as adequate, but it will need further strengthening in relation to WB policies and procedures, since this is the first time the WB is financing a project to be initiated by the MDT and implemented by the IT-Park. Project and contract management capacity exists within the IT-Park, but it needs to be further developed. MDT as the Project initiator has gained experience working with the UNDP and various bilateral development institutions on digitalization and telecommunications projects. Each of these projects has been managed by dedicated MDT staff or subsidiaries, such as Uzbektelecom, Tashkent University of Information Technologies, and the former Center for Electronic Government. The FM capacity built under previously implemented projects financed by DPs will be utilized for the proposed project but tailored to meet WB-financed project requirements.

Figure 2. Project Institutional and Implementation Arrangements



72. The Project’s institutional and implementation arrangements, including decision-making and reporting processes, are presented in Figure 2.





**B. Results Monitoring and Evaluation Arrangements**

73. **The project will use Bank-financed M&E arrangements.** Progress toward the achievement of the PDO will be monitored by the PIU based on the Results Framework that outlines indicators, their definitions, data sources, and data collection responsibility and frequency, as detailed in Section VII. The PIU will be responsible for collecting data, monitoring, and reporting the Project result indicators presented in Section VII, and will assign staff who will effectively monitor the Project and prepare reports in a timely manner. M&E of the project will be embedded in the various project components. The IT-Park will submit biannual progress reports detailing Project implementation and progress against the results indicators.

**C. Sustainability**

74. **The Project will finance building institutional structures and capacity for BPO/ITES industry promotion.** The IT-Park will serve as an anchor institution for building such structures and capabilities, as it has a team dedicated to the BPO/ITES industry. The sustainability mechanism is embedded within the operational and financial mandates of the IT-Park that currently operates by providing services to IT-Park residents for a compensatory fee that goes into a revolving fund and allows financing of subsequent services to the residents. The new BPO/ITES entrants that are qualified as eligible firms and will establish residence in the Regional ITES Centers will also be paying a nominal fee for services that will fund further industry promotion and incentives. Specific measures for each component are outlined in Table .

**Table 2. Sustainability Mechanisms**

Component	Sustainability Mechanisms
<b>Component 1:</b> Digital Inclusion and Enabling Environment	Sub-components 1.1 (training) and 1.2 (legal and regulatory frameworks) are intended to be completed during the project duration and will not require continuity. Sub-component 1.1 will continue to be financed by the Government on an as needed basis beyond project closing using the revenue received from the increased tax contributions generated by new businesses and employment opportunities.
<b>Component 2:</b> Development of country-wide regional infrastructure and incentives for ITES	Sub-component 2.2 (infrastructure development) will be completed during the project duration. The operations agreement will be signed with Uzbektelecom for a minimum duration of 10 years that will allow the IT-Park continuity in managing the newly developed infrastructure. Maintenance and upgrades to the infrastructure will be financed through the revenue generated from renting the office space to BPO/ITO companies.
<b>Component 3:</b> Location Attractiveness Promotion	Sub-component 3.2 (strategy) will be completed during the project’s timeframe. Sub-component 3.1(representation offices) will continue operations after the project closing date. The representation offices will be operated by the IT-Park and financed through the fee proceeds charged for services rendered to BPO/ITES companies.

**IV. PROJECT APPRAISAL SUMMARY**

**A. Technical, Economic and Financial Analysis (if applicable)**

75. **Digitalization can result in measurable and positive impact in accelerating Uzbekistan’s economic and social development and help meet the ambitious goals of the GoU for 2030.** In order to achieve these ambitious goals, the GoU needs to create more and better jobs. Recent WB research points to substantial potential for job creation, stemming from



greater technology adoption, particularly for unskilled and less educated workers.<sup>37</sup> In this context, the Project's economic rationale is to take advantage of existing human capital that is well suited to engage in income generating opportunities brought forth by digital technologies. The Project aims to create new digital jobs in the BPO/ITES and KPO markets, improving the employability of its beneficiaries to help generate economic benefits from increasing their employment rates and placing them in jobs with higher earnings. Benefits come through lifetime increases in earnings of people who acquire digital skills. Academic research shows that people in work who acquire digital skills achieve an increase in annual earnings of between 3–10 percent.<sup>38</sup>

76. **BPO/ITES is currently one of the fast-growing segments of Uzbekistan's IT exports (62 percent of US\$46 million of IT exports in 2021).** The global BPO/ITES market was valued at US\$245.9 billion in 2021 and is anticipated to reach US\$525.2 billion by 2030 (registering a compound annual growth rate (CAGR) of 9.1 percent from 2022 to 2030)<sup>39</sup>, but the fastest growth is expected in the KPO segment of the global outsourcing industry, which was estimated at US\$53.9 billion in 2020 and is projected to reach US\$156.5 billion by 2027 (registering a CAGR of 16.5 percent during 2020-2027). Acknowledging BPO/ITES and KPO potential to contribute to employment growth, the GoU intends to attract more and bigger BPO/ITES companies and generate large-scale employment with diverse services (e.g., accounting, insurance, and data entry). The Project will support the GoU's goal to reach US\$1 billion in annual IT exports by 2028 by providing support in generating the supply side (e.g., preparing human capital with desired skills, necessary infrastructure, and office spaces), stimulating demand (e.g., enabling environment in terms of policies and incentives), and enhancing the support side.

77. **The Project will finance capacity building activities aimed at producing a large pool of qualified labor in the regions, equipped with the necessary digital and soft skills. The eligible BPO/ITES firms will be provided a co-financing incentives package (for further industry specific training, equipment, and operational costs) for each person hired from this pool. Overall, the Project aims to provide employment opportunities for about 6,000 people.** The Project will also assist in promoting the digital brand of Uzbekistan and establishing the international representation offices, as well as in developing the BPO/ITES strategy and the capacity of the IT-Park to handle BPO/ITES transactions. It is anticipated that, as the result of these efforts, about 25,000 people will be employed in BPO/ITES based on the FS conducted by the MDT and the IT-Park. In addition to direct benefits to workers (e.g., higher employment rates and earnings), there are also broader benefits to society associated with the jobs, such as increased social cohesion or decrease in crime and violence (e.g., gender-based violence (GBV)), as well as contribution to climate resilience through reduced carbon emissions, as the jobs will be created closer to where people live, and in some cases may also involve home-based work, thus reducing the need for long-distance travel.

78. **The Project will also provide broader support to the national digital agenda through modernization of the legal, regulatory, and institutional framework for the development of the digital economy.** The Project will provide support as well through identification of the mechanisms to increase the country's Internet resilience by means of broadband development in rural areas through the design of innovative financial mechanisms to attract private investment.

79. **Along with support in implementation of the mechanisms for broadband development, by supporting opportunities for women to acquire digital skills, the Project will also help in addressing the digital gender gap since the lack of digital skills is one of the key barriers preventing women from using the Internet and participating in the digital economy.** According to recent studies<sup>40</sup>, a failure to ensure women have equal access to the Internet has cost low-income

<sup>37</sup> According to the WDR 2019: The Changing Nature of Work. <https://www.worldbank.org/en/publication/wdr2019>

<sup>38</sup> Centre for Economics and Business Research. 2015. Op. cit.

<sup>39</sup> Grand View Research, April 2022

<sup>40</sup> Alliance for Affordable Internet, 2021. The Costs of Exclusion. Economic Consequences of the Digital Gender Gap. Web Foundation. <https://webfoundation.org/docs/2021/10/CoE-Report-English.pdf>



countries US\$1 trillion over the past decade and could mean an additional loss of US\$500 billion by 2025 if governments fail to act.

80. **The Project is aligned with the goals of the Paris Agreement on both mitigation and adaptation.** The Project activities do not pose a material risk from current and future climatic conditions and take into consideration the climate and disaster risks identified using the Climate and Disaster Risk Screening Tool. Specifically, climate change risks and vulnerability will be managed and mitigated through climate-resilient and energy-efficient standards for refurbished buildings under Sub-component 2.2. will make the BPO/ITES infrastructure resilient to adverse weather events and will ensure business continuity in the event of disasters. The improvement of the digital inclusion of the country's vulnerable populations of unemployed youth and women, as well as persons with disabilities and returning migrant workers will also enhance the capacity of these populations to adapt to climate change while acquiring better access to information and services (e.g., disaster early warning, telemedicine, agro-meteorological information, etc.) to cope with climate variability and shocks. Sub-component 1.2 will support a climate-informed development and modernization of the legal and regulatory framework for the digital economy. With a hybrid delivery of the trainings under Sub-component 1.1, those participating will be able to continue the trainings also in cases of occurrence of climate-related disasters. Overall, all these adaptation measures reduce material risks from climate hazards to an acceptable level.

81. **Assessment and reduction of mitigation risks:** The proposed project will contribute to and is consistent with achieving Uzbekistan's NDC. Project activities do not pose a material risk of having a negative impact on the country's low-GHG emission development pathway as the Project incorporates climate mitigation measures and standards for both digital and broadband infrastructure and renovation of BPO/ITES centers as part of the support for implementation of the GoU's "Strategy for Development of BPO/ITES Centers until 2030". This will be done via employing renovation or retrofitting of buildings with energy efficient measures. The refurbished buildings to host BPO/ITES companies and infrastructure development under Sub-component 2.2 will follow the best-possible lower GHG/energy efficiency measures suggested in Uzbekistan's energy efficiency standards that are economically and technically feasible to implement (such as installing energy efficient light fixtures and equipment, improving insulation to reduce energy consumption, etc.). Additionally, under the latter sub-component as well as under Sub-component 1.1 provisions for a hybrid work regime will be integrated into the Project which will reduce travel needs of the training participants and BPO/ITES workers that will further reduce carbon emissions of the project activities. These measures together ensure that the carbon lock-in and transition risks associated with the project are low.

82. **By creating the enabling environment for beneficiaries to be able to work online, the Project will increase the potential to expand labor market participation for those who face significant barriers to entry in the traditional workforce, including women, persons with disabilities, rural youth, as well as returning migrants.** In developing countries, such online platforms are regarded as a promising source of work opportunities, leading many governments to invest in digital infrastructure and skills. Online work can also help persons with disabilities to build a sense of self-worth and empowerment, combined with feelings of creativity and contribution to society.<sup>41</sup>

83. **Many of the benefits of the project, such as knowledge spillovers and productivity increase across other sectors, are hard to quantify.** Therefore, only the economic impact of the project in terms of direct employment is estimated (i.e., the analysis only covers direct employment); however, some estimations from studies undertaken in the State of Andhra Pradesh in India suggest the creation of 3-4 additional downstream jobs for each new job in the ITES/BPO industry).

<sup>41</sup> Goggin, Gerard & Yu, Haiqing & Fisher, Karen & Li, Bingqin, 2018. Disability, technology innovation and social development in China and Australia. Journal of Asian Public Policy. <https://www.tandfonline.com/doi/abs/10.1080/17516234.2018.1492067>





84. **It is assumed that as the result of the project about 25,000 people will work in BPO/ITES and about 15,000 people will be employed in related industries (coefficient of 0.6).** In addition, about 16,000 people will be involved during project implementation (e.g., construction). The economic Net Present Value (ENPV) of the project is then estimated at US\$8.99 million and the economic Internal Rate of Return (EIRR) of the project at 32.6 percent.

85. **The analysis shows that under conservative assumptions, the economic benefits of direct employment created by the project far exceed its costs.** It must be noted that this analysis only considers a portion of the economic impact that the project would have across the economy.

## B. Fiduciary

### (i) Financial Management

86. **The FM arrangements of the Project (such as budgeting, planning, accounting, financial reporting, internal controls, and audit, etc.) at the IT-Park were assessed to be generally acceptable.** The project proposed FM arrangements were assessed to be **Moderately Satisfactory**, and the FM risk was assessed as **Moderate**, provided that the IT-Park will duly and timely address the FM recommendations. The IT-Park under the MDT, as an IE for the Project, will be directly responsible for day-to-day project administration and fiduciary tasks, and thus will have to develop further capacity to ensure alignment with WB FM requirements. This includes the adoption of the POM and the establishment of the PIU on the TOR, staff composition, etc., acceptable to the WB (*Effectiveness conditions*). The IT-Park will also install the separate accounting software to account for project transactions, financial accounting, and reporting.

87. **The POM will define in detail the key policies and procedures relevant to Project implementation to be followed for ensuring due management and administration of project implementation as well as management of project resources.** For the 2.1. *Incentives (professional training, equipment, operational cost)* sub-component, the Borrower (via the MDT/PIU/IT-Park) will adopt the IM in form and substance acceptable to the WB prior to any withdrawals related to this sub-component being made.

88. Financial Reporting, auditing and disbursement arrangements are described in details in Annex: Implementation Arrangements and Support Plan.

### (ii) Procurement

89. **Procurement process and procedures.** Procurement under the Project shall be carried out in accordance with the WB's 'Procurement Regulations for IPF Borrowers' (Procurement Regulations) – Procurement in Investment Project Financing, Goods, Works, Non-consulting, and Consulting Services, dated September 2023, the 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by International Bank for Reconstruction and Development (IBRD) Loans and International Development Association (IDA) Credits and Grants', dated July 1, 2016; and other provisions stipulated in the Financing Agreement (FA). Procurement and contract management processes will be tracked through the Systematic Tracking of Exchanges in Procurement (STEP) system. The POM will include the agreed procurement implementation arrangements and responsibilities of the Recipient and PIU. Procurement capacity-building trainings will be organized in Year 1 of implementation and on demand in the later years.

90. **Project Procurement Strategy for Development (PPSD) summary. PPSD has been finalized at appraisal** (see Summary in the Annex 1).

91. **Project Procurement Development Objectives (PPDO):** Secure the procurement efficiency and ensure value for money to support the Project objectives significantly, securing competitiveness and quality of works, goods and services



procured.

92. **The overall procurement risk is “High” based on the findings of the PPSD.**

93. **Use of national procurement procedures (NPP).** The PPSD specifies the use of the NPP when needed for the Project as specified in the Annex 1.

94. **Procurement Risk Assessment and Management System (PRAMS).** Procurement capacity assessment of the IT-Park has been performed by the Bank using the Procurement Risk Assessment and Management System (PRAMS). Based on the assessment, taking note of the existing capacity and the risks associated with procurement of complex IT equipment, and considering the mitigation measures the procurement risk is considered “Substantial”. The key risks concerning include systemic weaknesses in the areas of: (i) procurement capacity at the national level; (ii) accountability of procurement decision-making in the IE; (iii) technical expertise in preparing the specifications for equipment; (iv) potential risk of delays in project implementation due to lengthy decision-making that involves a great number of government officials and (v) weak contract management skills. Preliminary Risk mitigation measures are: (i) technical specifications preparation capacity building; (ii) training for new and current staff on Bank Procurement Regulations; (iii) develop POM with a detailed chapter on procurement; and (iv) putting in place an efficient contract management mechanism.

95. **Procurement supervision and ex-post review.** All contracts not covered under prior review by the WB will be subject to post-review during **implementation** support missions, including missions by consultants hired by the WB or through supreme audit institutions (SAIs). The further details are stipulated in the Annex 1.

**C. Legal Operational Policies**

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

**D. Environmental and Social**

96. **The project is processed under the WB ESF and is classified as Moderate for both environmental and social risks.** Six of the ten Environmental and Social Standards (ESSs) are relevant for this project: ESS1 (Assessment and Management of Environmental and Social Risks and Impacts); ESS2 (Labor and Working Conditions); ESS3 (Resource Efficiency and Pollution Prevention and Management); ESS4 (Community Health and Safety); ESS8 (Cultural Heritage) and ESS10 (Stakeholder Engagement and Information Disclosure).

97. **The project’s main environmental and social risks** are caused by the activities under **Component 2** which entail civil works for the establishment of and equipping of BPO/ITES Centers. In the first phase, these centers will utilize existing buildings that will be refurbished and no new construction will be required. The risks include: generation of dust, noise, and vibration; working of the construction vehicles and machinery; accumulation of demolition/construction waste, management of e-wastes; and occupational health and safety risks associated with reconstruction etc., associated with the buildings’ refurbishment/ rehabilitation activities are expected to be temporary, mitigable, and typical of those



associated with small/medium scale construction works. In addition, the IT equipment to be utilized by the BPO/ITES centers can result in the generation of e-waste that could harm the environment. Hence, an e-waste management plan would need to be developed along with relevant training for involved stakeholders in this respect.

98. Hazardous materials management, such as asbestos materials, etc., in old buildings will follow a procedure described in the Environmental and Social Management Framework (ESMF) that will guide the preparation of site-specific Environmental and Social Impact Assessments (ESIAs)/Environment and Social Management Plans (ESMPs), ensuring the safety of workers and communities. Other social risks include the exclusion of vulnerable and marginalized groups from employment opportunities with the BPO companies and potential incidents of SEA/SH during construction activities.

99. **The environmental and social risks and impacts are addressed in the ESMF, Stakeholder Engagement Plan (SEP), and Labor Management Plan (LMP) that have been prepared and consulted on by the Borrower.** The ESMF outlines the guiding principles of environmental screening, assessment, review, management, and monitoring procedures for all envisaged activities. The finalized ESMF, once acceptable to the WB, will be shared with all stakeholders and disclosed nationally and on the WB's external website.

100. **Climate Co-Benefits. The Project aims to provide a meaningful contribution, consistent with the WBG's Climate Change Action Plan and specifically the 35 percent WGB climate financing target.**<sup>42</sup> The country's climate change risks were summarized in the Context section, and are expected to be addressed through: (i) supporting the creation of a climate-friendly legal, regulatory, and institutional framework for the digital economy as part of the framework's modernization (Sub-component 1.2); (ii) implementation of innovative financial mechanisms including PPPs to attract private investment for the deployment of broadband in rural areas, incorporating climate mitigation and adaptation measures and standards for broadband infrastructure (Sub-component 1.2); (iii) ensuring compliance with the requirements for disaster response, climate change mitigation, and resilient connectivity for both digital infrastructure and renovation of buildings in the establishment and equipping of BPO/ITES Centers, which will be done through the use of renewable energy for backup power supply where appropriate, deployment of climate-resilient structures, and retrofitting of buildings with energy efficient measures; in addition, the Project is expected to contribute to climate mitigation through reduced carbon emissions, as the BPO jobs will be created closer to where people live, and in some cases may also involve home-based work, thus reducing the need for long-distance travel (Subcomponent 2.2); and (iv) ensuring that climate mitigation, and adaptation measures and standards for both digital infrastructure and construction of BPO centers are included (Component 3).

101. **Gender. The Project has identified strategic opportunities to narrow gender gaps in Uzbekistan in line with the GoU's Digital Uzbekistan 2030 Strategy.** The gender gaps in employment and in Internet adoption were summarized in the Context section, and are expected to be reduced by the through: (i) assisting in creating an enabling environment and laying the foundations for establishment of BPO/ITES centers and attracting private investment for BPO/ITES companies to expand their presence throughout the country, including in rural areas, which will create the prerequisite for hiring unemployed workers for better-paying jobs, including women (Component 1); (ii) providing 6177 people (50 percent of whom will be women) with training in digital skills (Components 1 and 2); and (iii) ensuring that women get at least 50 percent of jobs generated through the Project (Component 2). Project activities will be carried out using targeted outreach strategies and in close collaboration with local institutions, such as local khokimiyats, Makhalla Assemblies and leaders (and in particular female Makhalla members), one-stop-shop citizen service centers, People's Receptions, IT-Park resident firms / BPO firms, as well as the citizen engagement (CE) digital platform (as described in the Citizen Engagement section below). This approach will be put in place to ensure that 50 percent of trainees in digital skills will be women and that they get at least 50 percent of Project-generated jobs. Several indicators disaggregated by gender will be tracked as well,

<sup>42</sup> World Bank Group. 2021. World Bank Group Climate Change Action Plan 2021–2025: Supporting Green, Resilient, and Inclusive Development. <https://openknowledge.worldbank.org/handle/10986/35799>



including number of people provided with digital skills/BPO/ITES training (Component 1 and 2) aiming in each case for a level of 50 percent women.

102. **Citizen Engagement (CE) is central to the Project**, via several mechanisms relying on the existing country systems and instruments. These include: (i) awareness campaign and outreach on the various Project interventions to inform the population in particular on the availability and benefits of digital and soft skills development, employment opportunities that utilize these skills; (ii) consultations with a broad range of stakeholders during the preparation of various important documents and frameworks; (iii) regularly tracking beneficiaries' satisfaction with the trainings provided and getting feedback which will be used to improve future rounds of trainings and adapting them to specific needs of beneficiaries using digital platforms and standardized tools, such as Geo-Enabling Initiative for Monitoring and Supervision (GEMS); (iv) proactive communication and engagement with the targeted groups and institutions to gauge the level of demand and need for skills development in Project areas; (v) a Grievance Redress Mechanism (GRM) to receive and respond to beneficiary feedback within set standards and a reasonable timeframe<sup>43</sup>; and (vi) a CE digital platform launched by the Project to accumulate findings from periodic satisfaction surveys, encourage questions and comments from beneficiaries on the trainings, and facilitate proactive communication and engagement with targeted groups, including women.

## V. GRIEVANCE REDRESS SERVICES

103. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by a project supported by the WB may submit complaints to existing project-level grievance mechanisms or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted to the AM at any time after concerns have been brought directly to the attention of Bank Management and after Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's GRS, visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank's Accountability Mechanism, visit <https://accountability.worldbank.org>.

## VI. KEY RISKS

104. **Overall Risk.** The overall risk is rated as **Substantial** due to substantial political and governance, sector strategies and policies, technical design, institutional capacity for implementation, fiduciary, and stakeholders' risks.

105. **Political and Governance Risk – Substantial**, considering the more complex reforms of the next phase of the transition towards a market economy, as political economy constraints and vested interests may slow or derail the reform effort. This is particularly critical for the transition to a digital economy, which will require a more decisive stance towards liberalization of the market and attraction of significant amounts of private investment to deploy infrastructure and create innovative high-paying jobs in the IT and BPO/ITES industries. Mitigation measures include continuing the dialogue on telecom sector reforms as part of the DPF series, as well as provision of technical assistance (TA) through the Project for support in implementation of the necessary reforms and in overall project management, including procurement.

<sup>43</sup> The project's GRM will leverage and rely on the network of People's Receptions, which operate across the country as local GRMs that follow strict protocols and are closely monitored by the Presidential Administration. The Project will provide capacity building support to these Receptions and utilize their local presence to facilitate the smooth integration of its activities.



106. **Sector Strategies and Policies Risk – Substantial**, as there is a still-evolving strategic framework for the development of the BPO/ITES industry in Uzbekistan, as well as market constraints affecting Internet affordability. This risk will be mitigated by (i) project support to the legal, regulatory, and institutional framework (Component 1) and to the development of the BPO/ITES strategy, which will be front-loaded during implementation; and (ii) partnering with other donors to support the corresponding strategies and policies. The residual risk after mitigation is currently assessed as Substantial but can be reconsidered depending on the progress with the sectoral strategic framework adoption.

107. **Technical Design Risk – Substantial**, as the Project may be faced with reluctance of the beneficiaries to get enrolled in the training program and complete it under Component 1; prospective BPO/ITES firms may not regard Uzbekistan as an attractive destination for starting a business, while those present in the country may not get sufficiently enticed by the incentive packages under Component 2 to operate in the renovated buildings, expand to the country's regional and district centers, and hire the disadvantaged groups. This risk is being mitigated by focusing Project design on a limited number of target locations and population groups, and allocation of TA resources to support the review and update of legal and regulatory frameworks for the digital economy. The risk is also mitigated by the phased approach, for the Project Nonetheless, the residual risk is assessed to be Substantial.

108. **Institutional Capacity for Implementation and Sustainability Risk – Substantial**, as institutional capacity of government agencies remains limited, and cumbersome administrative processes continue to pose risks to the smooth implementation of the WBG program in Uzbekistan. This risk is being mitigated by hosting the PIU in the IT-Park, which has already established a substantial institutional capacity in the development of the local IT industry and has specifically incubated and supported several BPO/ITES businesses. This risk will be also mitigated by the establishment of a PIU with strong implementation capacity and significant capacity building and technical assistance. The residual risk is assessed as Substantial but can be reconsidered depending on the Project's implementation performance.

109. **Fiduciary Risk – Substantial**. This will be the first WB-financed Project to be implemented by the IT-Park. This risk will be assessed regularly during implementation and either reconfirmed or changed upon the conduct of a more detailed assessment of the IT-Park's fiduciary capacity and of the Project's overall fiduciary risks. Project FM risk is defined to be Moderate provided the IT-Park duly and timely address the recommendations raised during the FM assessment (i.e., PIU establishment, adoption of POM, etc.). The main sources of fiduciary risk relate to the complexity of managing refurbishment works and supply of equipment in remote locations (under Component 2), as well as the low level of capacity of the IE to implement such a project and its low level of familiarity with WB fiduciary systems. This risk will be mitigated by the establishment of a PIU with strong implementation capacity, including through support to capacity building in the areas of procurement and FM, and hands-on oversight by the WB fiduciary team.

110. **The combined Environmental and Social Risk - Moderate**. The project's main environmental risks are associated with the activities proposed under Component 2 that will entail civil works for establishment of and equipping BPO/ITES Centers in regional and district capitals throughout Uzbekistan, for which existing buildings will be refurbished, but no new construction will be required. The risks and impacts are expected to be temporary and mitigable and are typical of those associated with small/medium scale construction works.

111. **Stakeholders' risks – Substantial**, as a number of stakeholders, including government counterparts at central, regional, and municipal levels, local communities, and BPO/ITES firms, will be critical to ensuring successful project delivery. While the involvement of MDT and the IT-Park as relatively strong lead agencies with a strong experience of dealing with each of the above stakeholder groups can help mitigate this risk to some degree, challenges related to engagement of and coordination with multiple stakeholders are still likely to be considerable, so the residual risk is assessed as Substantial.



VII. RESULTS FRAMEWORK AND MONITORING

PDO Indicators by PDO Outcomes

Baseline	Period 1	Period 2	Period 3	Period 4	Closing Period
<b>Expand access to skills for the digital economy</b>					
<b>Beneficiaries who have completed digital and soft skills training (obtained a certificate) under the project (Number)</b>					
Apr/2024	Apr/2025	Apr/2026			Oct/2029
0	2059	4118			6177
➤Of which women (Number)					
Apr/2024	Apr/2025	Apr/2026			Oct/2029
0	1029	2059			3088
➤Of which persons with disabilities (Number)					
Apr/2024	Apr/2025	Apr/2026			Oct/2029
0	83	164			247
<b>Expand access to employment opportunities in the digital economy</b>					
<b>Beneficiaries who have been employed by ITES companies (Number)</b>					
Apr/2024	Apr/2026	Apr/2027	Apr/2028	Apr/2029	Oct/2029
0	1,800.00	3600.00	5400.00	7200	9000
➤Of which women (Number)					
Apr/2024	Apr/2026	Apr/2027	Apr/2028	Apr/2029	Oct/2029
0	900	1800	2700	3600	4500
➤Of which persons with disabilities (Number)					
Apr/2024	Apr/2026	Apr/2027	Apr/2028	Apr/2029	Oct/2029
0	72	144	216	288	360
<b>Expand access employment opportunities in the digital economy</b>					
<b>Beneficiaries who have increased earnings as a result of the digital and soft skills training received (Percentage)</b>					
Apr/2024	Apr/2027				Oct/2029
0	50.00				80.00



### Intermediate Indicators by Components

Baseline	Period 1	Period 2	Period 3	Period 4	Closing Period
<b>Digital Inclusion and Enabling Environment</b>					
<b>Policy, legal and regulatory documents for ITES industry developed and submitted to the Government (new and amended) (Yes/No)</b>					
Apr/2024					Oct/2029
No					Yes
<b>Detailed design of innovative financial mechanisms to attract private investment for the deployment of broadband in rural areas developed and submitted to the Government (Yes/No)</b>					
Apr/2024					Oct/2029
No					Yes
<b>CE indicator: beneficiaries' satisfaction with the digital and soft skills training received (Percentage)</b>					
Apr/2024	Apr/2025	Apr/2026			Oct/2029
0	65.00	75.00			85
<b>Development of country-wide regional infrastructure and incentives for ITES</b>					
<b>Number of ITES companies that entered the market (Number)</b>					
Apr/2024	Apr/2026	Apr/2027	Apr/2028	Apr/2029	Oct/2029
133	164.00	180.00	198.00	218.00	239
<b>ITES centers in the regions of Uzbekistan established and operational (Number)</b>					
Apr/2024	Apr/2027	Apr/2028	Apr/2029		Oct/2029
0	5.00	8.00	11.00		14
<b>Location Attractiveness Promotion</b>					
<b>International representative offices to promote "Digital Uzbekistan" brand established (Number)</b>					
Apr/2024	Apr/2026				Oct/2029
0	3.00				5
<b>Uzbekistan ITES strategy developed and submitted to the Government (Yes/No)</b>					
Apr/2024					Oct/2029
No					Yes





**Monitoring & Evaluation Plan: PDO Indicators by PDO Outcomes**

<b>Expand access to skills for the digital economy</b>	
<b>Beneficiaries who have completed digital and soft skills training (obtained a certificate) under the project (Number)</b>	
Description	This indicator measures the total cumulative number of youth who have completed training (i.e., obtained a certificate) in digital and soft skills (including digital skills, foreign language skills, communications skills) either in-person, virtually, or under a hybrid approach and were presented with the opportunity to apply for employment, disaggregated by target group (women, persons with disabilities). The beneficiary group is comprised of the youth (defined for the purposes of this Project as young people under the age of 30, in line with the national definition), vulnerable to unemployment and at risk of being left out of the digital economy. A strong focus will be made on involving beneficiaries residing in the regional and district capitals of Uzbekistan.
Frequency	Annual, starting from year 2 of project implementation, until the end of year 3 (end of phase 1).
Data source	Training providers and IT-Park reporting.
Methodology for Data Collection	Data to be consolidated by IT-Park PIU based on training providers' data and IT-Park reporting.
Responsibility for Data Collection	IT-Park PIU
<b>Of which women (Number)</b>	
<b>Of which persons with disabilities (Number)</b>	
<b>Expand access to employment opportunities in the digital economy</b>	
<b>Beneficiaries who have been employed by ITES companies (Number)</b>	
Description	The indicator measures the total cumulative number of people from the beneficiary group who were employed by ITES companies in Uzbekistan - recipients of the incentives packages financed under Component 2, disaggregated by target group (women and persons with disabilities).
Frequency	Annual, starting from year 3 of project implementation.
Data source	Hiring ITES companies and IT-Park reporting.
Methodology for Data Collection	Data to be consolidated by IT-Park PIU based on hiring ITES companies and IT-Park reporting.
Responsibility for Data Collection	IT-Park PIU
<b>Of which women (Number)</b>	
<b>Of which persons with disabilities (Number)</b>	
<b>Expand access to employment opportunities in the digital economy</b>	
<b>Beneficiaries who have increased earnings as a result of the digital and soft skills training received (Percentage)</b>	
Description	This indicator will track the percentage of beneficiaries who have completed the digital and soft skills training under Sub-component 1.1 and reported having increased their earnings through being hired to better paying jobs. The survey will be designed during project implementation with the baseline data to be collected at year 1 after project effectiveness. The results will be used to assess the overall improvement of livelihoods of the project beneficiaries owing to their participation in the training.
Frequency	Three times during project implementation (baseline survey at year 1 and two surveys at the end of phase 1 and phase 2, respectively).
Data source	M&E survey data
Methodology for Data Collection	The IT-Park PIU will collect this information from the firm to hired PIU to carry out the M&E survey to feed into the project implementation report and the Results Framework. An answer to the question about increase of earnings will be considered positive if the respondent reports at least 10 percent of monthly earnings increase.
Responsibility for Data Collection	IT-Park





**Monitoring & Evaluation Plan: Intermediate Results Indicators by Components**

<b>Digital Inclusion and Enabling Environment</b>	
<b>Policy, legal and regulatory documents for ITES industry developed and submitted to the Government (new and amended) (Yes/No)</b>	
Description	This indicator measures the adoption of policy, legal and regulatory documents defining the strategic framework for the ITES industry developed and submitted to the Government for approval, supported by Sub-component 1.2: Modernization of the legal, regulatory and institutional framework for the development of IT enabled industries.
Frequency	Annual, starting from year 2 of project implementation.
Data source	MDT / IT-Park PIU.
Methodology for Data Collection	Data to be consolidated by the IT-Park PIU.
Responsibility for Data Collection	IT-Park PIU.
<b>Detailed design of innovative financial mechanisms to attract private investment for the deployment of broadband in rural areas developed and submitted to the Government (Yes/No)</b>	
Description	The indicator will assess the delivery of the output under Sub-component 1.2: Detailed design of innovative financial mechanisms including PPPs to attract private investment for the deployment of broadband in rural areas.
Frequency	Annual, starting from year 2 of project implementation.
Data source	MDT / IT-Park
Methodology for Data Collection	Data to be consolidated by the IT-Park PIU.
Responsibility for Data Collection	IT-Park PIU
<b>CE indicator: beneficiaries' satisfaction with the digital and soft skills training received (Percentage)</b>	
Description	This indicator will track the percentage of beneficiaries who have completed the digital and soft skills training under Sub-component 1.1 and reported satisfaction. The survey will be designed during project implementation with the baseline data to be collected at year 2 after project effectiveness. The results will be used to inform and enhance the design and delivery mechanisms of the newly introduced and additional digital and soft skills trainings.
Frequency	Annual starting from year 2 of project implementation.
Data source	M&E survey data.
Methodology for Data Collection	The IT-Park PIU will collect this information from the firm hired under the project to carry out the survey to feed into the project implementation report and the results framework. Assuming a five-level scale, user satisfaction will be the percentage of responses in the top two levels (e.g., satisfied and very satisfied).
Responsibility for Data Collection	IT-Park PIU.
<b>Development of country-wide regional infrastructure and incentives for ITES</b>	
<b>Number of ITES companies that entered the market (Number)</b>	
Description	This indicator will assess the number of ITES companies that have entered the Uzbekistan market and become residents of the IT-Park.
Frequency	Annual, starting from year 2 of project implementation.
Data source	IT-Park.
Methodology for Data Collection	Data consolidated by the IT-Park PIU.
Responsibility for Data Collection	IT-Park PIU.
<b>ITES centers in the regions of Uzbekistan established and operational (Number)</b>	
Description	This indicator will measure the results of renovation of the facilities for creation of ITES centers in Uzbekistan regions, supported under Sub-component 2.2.
Frequency	Annual, starting from year three of project implementation.
Data source	IT-Park.



Methodology for Data Collection	Data to be consolidated by IT-Park PIU.
Responsibility for Data Collection	IT-Park PIU.
<b>Location Attractiveness Promotion</b>	
<b>International representation offices to promote "Digital Uzbekistan" brand established (Number)</b>	
Description	This indicator is supported by Sub-component 3.2 involving 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.
Frequency	Annual, starting from year 2 of project implementation.
Data source	IT-Park.
Methodology for Data Collection	Data to be consolidated by the IT-Park PIU.
Responsibility for Data Collection	IT-Park PIU.
<b>Uzbekistan ITES strategy developed and submitted to the Government (Yes/No)</b>	
Description	This indicator is supported by the respective activity supporting development of the ITES strategy under Sub-component 3.3.
Frequency	Once during year 3 of project implementation.
Data source	IT-Park.
Methodology for Data Collection	Data to be consolidated by the IT-Park PIU.
Responsibility for Data Collection	IT-Park PIU.

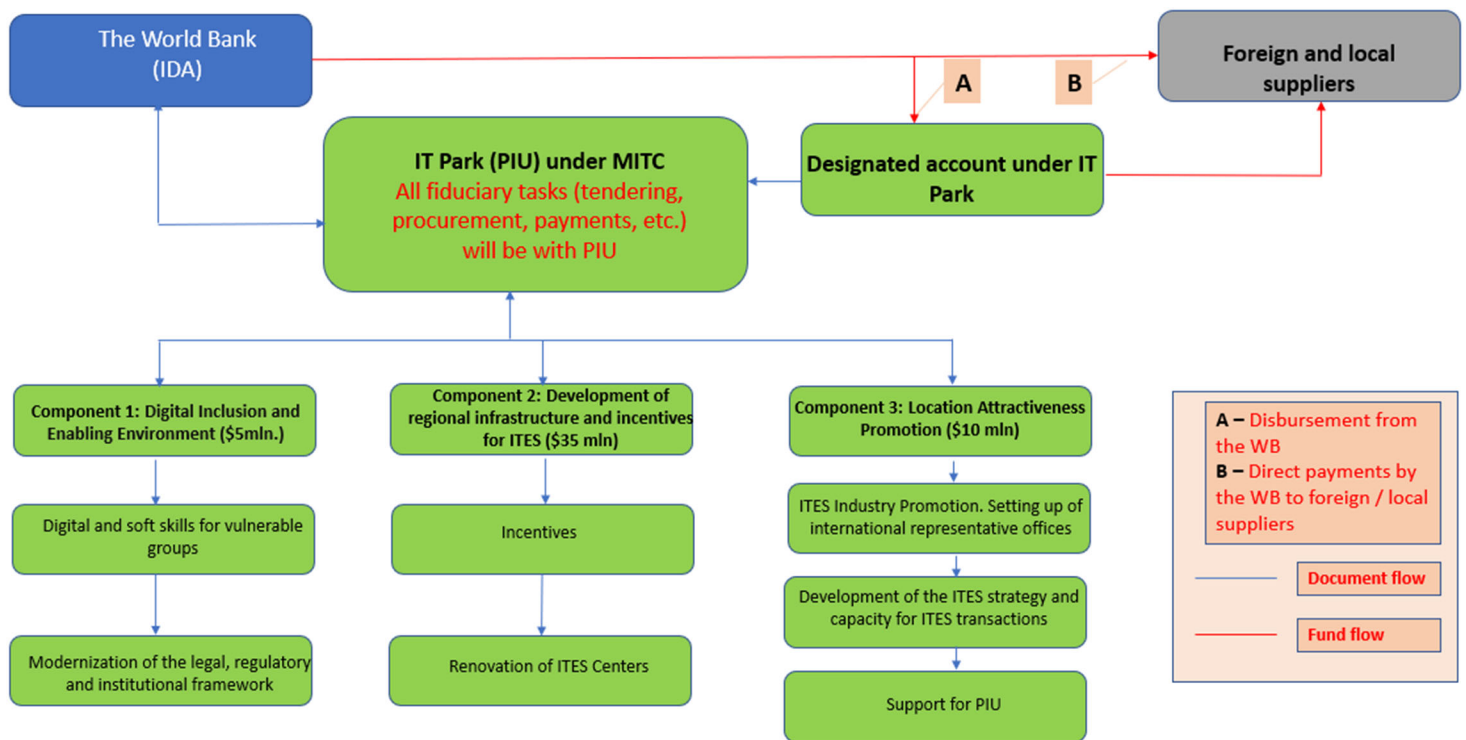


ANNEX 1: Implementation Arrangements and Support Plan

COUNTRY: Republic of Uzbekistan  
Uzbekistan Digital Inclusion Project

1. The IT-Park under MDT will be ultimately responsible for the fiduciary task over the project implementation. All the procurement, contracting, invoicing, and payments for eligible expenses of the project will be carried out exclusively by the PIU. Figure 5 below reflects the flow of funds under the Project:

Figure 1. Flow of funds under the Digital Inclusion Project



FM Arrangements

2. The FM assessment for the proposed Project was conducted in August 2023. The FM arrangements of the proposed project are considered generally acceptable for implementation of this Project provided risk mitigation measures are addressed prior to Project effectiveness date. The FM risk is assessed as **Moderate** at this stage due to the following: i) this is the first WB-financed project for the IT-Park, ii) the IT-Park may lack the related experience in certain renovation works; iii) the challenges associated with interacting with, aligning, and coordinating several state agencies and stakeholders (Ministry of Economy and Finance, Ministry of Investment and Foreign Trade, MDT, IT-Park, etc.), and iv) the consistency and adequacy of FM arrangements will be challenged by the span of the project across the country.

3. The IT-Park will establish the PIU on the TOR and with resources and staff composition acceptable to the WB. The PIU will be operationally and fiduciarily responsible for the daily FM arrangements over project implementation. The WB will provide available knowledge and learning support to the PIU staff via the WB learning and capacity development



resources (workshops, seminars, etc.). in addition, an on-going support and guidance on FM will be provided throughout project implementation from the WB country-office authorized staff.

4. The following actions shall be addressed by the IT-Park:

Measure	Condition type
The Subsidiary Agreement has been executed and delivered and is legally binding upon the Recipient, through the MDT and the MEF, and the IT-Park in accordance with its terms.	Effectiveness
The IT-Park has established a PIU with a structure, functions, responsibilities, and adequate staff, all as further described in the POM and acceptable to the Association, for the purposes of day-to-day Project implementation, management, monitoring, evaluation, and supervision	Effectiveness
The IT-Park has adopted a POM in form and substance satisfactory to the Association, which shall contain detailed workflow, methods and procedures for the implementation of the Project, including a chapter on FM (i.e., detailed guidance and procedures on budgeting and planning, accounting, internal controls, funds flow, financial reporting and auditing, and disbursement).	Effectiveness
The IT-Park shall, not later than 90 days after the Effective Date, install and maintain throughout Project implementation a fully functional accounting software and the needed accounting and financial controls based on the accounting software.	Dated covenant
The IT-Park shall, not later than December 15, 2024, recruit, in accordance with the provisions of the Procurement Regulations, hire a firm that provides the services of one environmental specialist, one social specialist and one stakeholder engagement specialist for Project implementation.	Dated covenant
No withdrawal shall be made under Category (2) unless (i) a verification agent and a payment agent have been hired; (ii) the IM has been prepared and adopted; (iii) at least one Uzbektelecom Agreement has been signed and is in effect;(iv) at least one Facilities and Incentives Agreement has been signed and is in effect.	Withdrawal Condition
No withdrawal shall be made under Category (3) unless At least one Uzbektelecom Agreement has been signed and is in effect.	Withdrawal Condition

5. **Description of Project IE.** The proposed Project would be implemented by the IT-Park. As the IT-Park has no experience with implementing projects supported by the WB, the technical, managerial, and fiduciary capacity would need to be strengthened for the IT-Park to play the role of project IE. With this purpose, the PIU will be set up at the IT-Park under the MDT with a required level of mandate, resources, and functions. Since it is the first project for the IT-Park, the PIU and related internal policies and procedures will need to be established from scratch. The POM will reflect the key policies and procedures required to guide and manage project implementation. **The adoption of the POM acceptable to the Bank will be an effectiveness condition.**

6. **Staffing.** The PIU shall include the required level of specialists and experts to run the project. The exact staffing will be authorized by the IT-Park, but as a minimum, the PIU shall include a PIU Director/Head of PIU, a Project Manager, an FM Specialist (supported by the Disbursement Specialist if deemed necessary), a Procurement Specialist and Procurement Asisstant(as needed), a M&E Specialist, technical specialists, etc. In addition, the PIU will be allowed to hire as many individual consultants as needed to help with the implementation of specific project activities over the course of the implementation. The FM staff will be trained on WB policies and procedures during the WB organized clinics and/or workshops (upon availability) and with additional implementation support after project effectiveness.



7. **Budgeting.** The PIU will prepare an annual budget, based on a procurement plan, operating expenses estimations, etc., and will submit those to the IT-Park, and the Ministry of Economy and Finance (MEF) for approval. The PIU Director and the FM specialist will be responsible for the Project budget preparation, execution procedures, and monitoring. The budget will form the basis for allocating the funds as per project activities and project periods. Based on the agreed budget, the PIU will be entitled to use funds from the PIU DA. The funds flow at the regional level will be managed via the regional PIU unit which will be adequately resourced and staffed.

8. **Accounting.** The PIU will be in charge of maintaining the Project accounting records with the help of a fully functionable accounting system/software, which would be installed by the set deadline following the Project effectiveness (dated covenant). The project accounting will be maintained in accordance with the International Public Sector Accounting Standards (IPSAS) – Cash Basis Standard. The accounting records will be maintained in the currency of payment, as well as in the USD equivalent, applying the actual exchange rate used at the currency conversion. The accounting records will capture all the necessary details and information of project transactions (beneficiary, invoice/PO information, currency, expenditure nature, etc.). At the same time, the PIU may apply local accounting standards for statutory reporting purposes to state agencies (Ministry of Economy and Finance, Tax Committee, Statistics Committee, etc.). This accounting system would allow fully automated accounting and reporting, including automatic generation of Statements of Expenditure, IFRs, and other reports required by national legislation. The system will have built-in controls to ensure data security, integrity, and reliability.

9. **Financial Reporting.** The PIU will prepare and submit the IFR to the Bank every *calendar quarter*, starting with the quarter in which the first disbursement occurs. The IFR will be prepared on a quarterly basis and will include information on the sources and uses of funds, detailed use of fund by each activity, as well as movements and balances in the Designated and Transit accounts. The format of the IFR: (a) Project Sources and Uses of Funds, (b) Uses of Funds by Project Activities, (c) Project Balance Sheet, (d) DA Statement, and (e) a Statement of Expenditure Withdrawal Schedule and will be agreed and annexed to the POM. These financial reports will be submitted to the Bank within 45 days after the end of each calendar quarter.

10. **Internal controls.** The PIU will establish an internal control system capable of providing reliable and adequate controls over FM and disbursement processes and procedures. These include controls for safeguard of assets, segregation of duties, authorization of transactions, review and approval of invoices, and contract management, generation, and provision of the financial and other project information among others. The internal control procedures and the system to be used by the PIU will be specified in detail in the POM.

11. **External audit:** The Borrower (via the PIU under the IT-Park) will be responsible for arranging the annual audit of the Project Financial Statements. The Project Financial Statements audit will be conducted (a) by an independent private auditor firm acceptable to the Bank, on TOR acceptable to the Bank, and (b) according to the International Standards on Auditing issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. The project audit will include (a) audit of financial statements; and (b) review of the internal controls of the PIU with special attention to compliance with the requirements established in the FA and WB guidelines and procedures and also the local legislation requirements. No entity audit will be required. The Table below summarizes the audit requirements for this project.

Audit Report	Due date
Project Financial Statements The Project Financial Statements will include the Project Balance Sheet, Sources and Uses of Funds, Uses of Funds by project activities, Statement of Expenditures	Within 6 months of the end of each fiscal year and also at the closing of the project



Audit Report	Due date
Withdrawal Schedule, DA Statement, Notes to the financial statements, and Reconciliation Statement. No Entity audit (i.e., audit of the IT-Park) will be required under the project.	

12. The audited project financial statements will be disclosed to the public in a manner acceptable to the Bank. Following the WB’s formal receipt of these statements from the Borrower, the WB will make them available to the public in accordance with the WB Policy on Access to Information. Audit of annual Project Financial Statements will be financed from credit proceeds.

13. **Disbursements.** The PIU will be in charge of planning and managing project disbursements, as well as preparation and submission of withdrawal applications to the WB. For this purpose, the PIU shall have access to the WB’s online Client Connection platform. The Project would use three standard disbursement methods, including Direct payments, Reimbursements, and Special Commitments. *Advances (to the DA) method is allowed only after the lapsed loan issue under the IDA Credit 54210-UZ is resolved. The Recipient can open a DA and start using the Advance as Disbursement Method once this lapsed loan issue is resolved.* Project funds will be disbursed to the DA at a financial institution acceptable to the WB. Detailed guidance on the DA, DA maintenance and ceilings, costs allocations, etc. will be specified in the DFIL. All the payments from the DAs will be executed centrally by the PIU and the payments will be made for the eligible expenditures and will not be pooled with other funds not related to the project or placed for local bank deposits. Eligible project expenditures, consisting of regular goods, works, consulting services, non-consulting services, training, and operating costs, would be documented to the WB using Statements of Expenditure and full documentation as reflected in the DFIL.

**Procurement arrangements**

14. **Procurement process and procedures.** The IT-Park/PIU shall carry out procurement in accordance with the WB’s ‘Procurement Regulations for IPF Borrowers’ (Procurement Regulations) – Procurement in Investment Project Financing, Goods, Works, Non-consulting and Consulting Services’, dated November 2020, the ‘Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants’, dated July 1, 2016, and other provisions stipulated in the FA. The procurement and contract management processes will be tracked through the STEP system. The POM (if applicable) will include procurement arrangements and responsibilities of the Recipient and the PIU. Procurement capacity-building programs to follow the POM will be organized in Year 1 of implementation and on demand basis in the later years. The PPSD is still to be finalized and agreed with the Bank.

15. **Procurement reviews.** Routine procurement reviews and support will be provided by the assigned to the project procurement specialist based in the Tashkent WB country office. One procurement ex post review report will be prepared per fiscal year, including the findings of physical inspections of not less than 20 percent of the contracts awarded during the review period. The WB may, at any time, conduct independent procurement reviews of all the contracts financed under the loans and credits.

16. **PPSD Summary.** Based on the PPSD findings the most recommendable procurement approaches under the Project have been determined and Procurement Plan for the first 64 months of project implementation have been prepared and agreed upon during negotiations. The PPSD includes detailed market, procurement approaches and procurement risks analysis along with corresponding proposed risk mitigation measures. Market analysis for the common and specific procurement activities under the Project components have been conducted. The market analysis have confirmed the availability of relevant and quite competitive markets (large number of manufacturers, suppliers, and contractors) for the key procurement packages.



## 17. Procurement Plan/Textual part

Project information:	Uzbekistan – Digital Inclusion Project (P179108)
Project implementing entity:	IT-Park, MDT of the Republic of Uzbekistan.
Date of the procurement plan:	September 23, 2023
Period covered by this procurement plan:	From February 2024 to June 2029 (64 months)

### Preamble

In accordance with paragraph 5.9 of the “World Bank Procurement Regulations for IPF Borrowers” (November 2020) (“Procurement Regulations”) the Bank’s STEP system will be used to prepare, clear, and update procurement plans and conduct all procurement transactions for the project.

This textual part along with the procurement plan tables in STEP constitute the procurement plan for the project. The following conditions apply to all procurement activities in the procurement plan. The other elements of the procurement plan as required under paragraph 4.4 of the Procurement Regulations are set forth in STEP.

**The Bank’s Standard Procurement Documents** shall be used for all contracts subject to international competitive procurement and those contracts as specified in the procurement plan tables in STEP.

**National Procurement Arrangements:** In accordance with paragraph 5.3 of the Procurement Regulations, when approaching the national market, procurement under WB-financed operations may be carried out in accordance with the “Single-Stage Bidding” method set forth in the PPL of the Republic of Uzbekistan dated April 22, 2021 (the PPL), provided that such arrangements continue to meet requirements of paragraph 5.4 of the Procurement Regulations and the following conditions:

- The request for bids (RFB)/request for proposals (RFP) document shall require that bidders/proposers submitting bids/proposals present a signed acceptance at the time of bidding, to be incorporated in any resulting contracts, confirming application of, and compliance with, Bank Anti-Corruption Guidelines, including without limitation the Bank’s right to sanction and the Bank’s inspection and audit rights.
- BDs, including contract forms, acceptable to the Bank shall be used.
- The Bidding process shall not be cancelled solely for the reason that the minimum bid price is larger than the amount allocated by the procuring entity for this procurement.
- There shall be no preference applied during procurement of works.
- The project implementing entity shall have an option to publish the procurement notice without disclosing the cost estimate.

Other national procurement arrangements (other than national open competitive procurement) that may be applied by the Borrower shall be consistent with paragraphs 5.5 and 5.6 of the Procurement Regulations.

The e-Procurement system in the Republic of Uzbekistan will be used to facilitate the e-procurement transactions for WB-financed projects when the country’s own national procurement procedures will be used. In this regard, the e-Reverse Auction module and e-Catalog module can be used for Bank-funded procurement following the national market approach for simple goods and works.





**Leased Assets** as specified under paragraph 5.10 of the Procurement Regulations: Leasing may be used for those contracts identified in the Procurement Plan tables - Not Applicable.

**Procurement of Second Hand Goods** as specified under paragraph 5.11 of the Procurement Regulations – is allowed for those contracts identified in the Procurement Plan tables - Not Applicable.

**Domestic preference** as specified under paragraph 5.51 of the Procurement Regulations (**Goods and Works**):

Goods: is applicable for those contracts identified in the Procurement Plan;

Works: is not applicable.

**Hands-on Expanded Implementation Support (HEIS)** as specified under paragraphs 3.10 and 3.11 of the Procurement Regulations is Applicable - Not Applicable

**Other Relevant Procurement Information – None.**

The BDs template to be used under “national open competitive procurement arrangements” are subject to prior written concurrence by the Bank. When other national procurement arrangements other than national open competitive procurement arrangements are applied by the Borrower, such arrangements shall be subject to paragraph 5.5 of the Procurement Regulations.

The recommended Procurement arrangements/Plan for the first 64 months of project implementation is presented below.

### 1. CONSULTING

Contract title, Description and Category	Estimated cost (US\$) and risk rating	Bank oversight	Procurement approach / Competition:	Selection methods:	Evaluation method:
<b>DIP/QCBS/23/01</b> Modernization of legal, regulative and institutional systems for development of Digital Economy <b>Consulting services</b>	1,300,000.00	Prior review	International / Open	Post Qualifications (QCBS)	Rated Criteria
<b>DIP/QCBS/23/02</b> Development of design documentation and quality monitoring of construction works <b>Consulting services</b>	950,000.00	Post review	International / Open	Post Qualifications (QCBS)	Rated Criteria
<b>DIP/QCBS/23/03</b> ITES promotion and location attractiveness <b>Consulting services</b>	3,757,000.00	Prior review	International / Open	Post Qualifications (QCBS)	Rated Criteria
<b>DIP/QCBS/23/04</b> Development of ITES Strategy <b>Consulting services</b>	4,000,000.00	Prior review	National / Open	Post Qualifications (QCBS)	Rated Criteria



<b>DIP/CQS/23/01</b> Development of curricula, selection of trainees and monitoring of trainings <b>Consulting services</b>	150,000.00	Post review	National / Open	Post Qualifications (CQS)	Qualification
<b>DIP/CQS/23/02</b> Development of an on-line training platform <b>Consulting services</b>	400,000.00	Post review	National / Open	Post Qualifications (CQS)	Qualification
<b>DIP/IC/23/01</b> National Consultant - Public Relations Specialist (36 person/months) <b>Consulting services</b>	65,000.00	Post review	National / Open	Post Qualifications (ICS)	Qualification
<b>DIP/IC/23/02</b> International Consultant - Marketer (12 person/months) <b>Consulting services</b>	243,000.00	Post review	International / Open	Post Qualifications (ICS)	Qualification
<b>DIP/IC/23/03</b> National Consultant - Specialist on trainings (36 person/months) <b>Consulting services</b>	65,000.00	Post review	National / Open	Post Qualifications (ICS)	Qualification
<b>DIP/IC/23/04</b> Social and Environment Safeguards Consultant <b>Consulting services</b>	80,000.00	Post review	National / Open	Post Qualifications (ICS)	Qualification

## 2. WORKS AND GOODS

Contract Title, Description and Category	Estimated Cost US\$ and Risk Rating	Bank Oversight	Procurement Approach/Competition:	Selection Methods:	Evaluation Method:
<b>DIP/RFB/23/01</b> Renovation and equipping ITES Centers buildings (turnkey) <b>Civil works</b>	3,800,000.00*	Prior review	Open International	Post-qualification, RFB	Lowest Evaluated Cost
<b>DIP/RFB/23/02</b> Construction and equipping ITES Centers buildings (turnkey) <b>Civil works</b>	14,250,000.00*	Prior review	Open International	Post-qualification, RFB	Lowest Evaluated Cost
<b>DIP/NCS/23/01</b> Training centers' services	3,020,000.00*	Prior review	Open National	N/A RFQ	Lowest Evaluated Cost



on organization of trainings					
<b>Non-consulting services</b>					

\* Numerous contracts throughout the project duration



**ANNEX 2: Contribution to IDA-20 Digital Commitments**

#	IDA20 Special Theme / Cross-Cutting Issue	Objective	Relevant Policy Commitment	Contribution of the proposed operation
<b>6 PRIORITY TECHNOLOGY COMMITMENTS</b>				
1	Jobs and Economic Transformation [IDA20 Special Theme]	<b>Expanding broadband access and usage for jobs of the future</b>	To close the connectivity gap, IDA will support 17 IDA countries, including those which will benefit from IFC's support under the IDA PSW to develop digital infrastructure, increase inclusive, secure, and affordable access to and usage of broadband connectivity, among which are six landlocked countries, four Small States and nine countries in fragile and conflict-affected situations. [Note: Strengthened focus on cybersecurity, data protection, and privacy]	<b>YES.</b> Component 1 will support the GoU in the design of innovative financial mechanisms to attract private investment for the deployment of broadband in rural areas. This activity will supplement GoU's existing efforts to improve rural broadband connectivity.
2		<b>Positioning more firms for recovery, including through the adoption of digital technology</b>	Support programs in 15 IDA countries, to strengthen private sector recovery and transformation that are well targeted, inclusive of SMEs and support the adoption of digital technologies, with monitoring to capture distributional impacts and effectiveness. To support this, IFC will increase its digital infrastructure, with due consideration of cyber security and related issues, and its venture capital work in IDA and countries in fragile and conflict-affected situations.	<b>YES.</b> The Project will benefit the private sector, including SMEs in the digital sector, by supporting an improved legal and regulatory framework for ITES business development, making available a larger pool of trained labor force (Component 1) employable in ITES business and the broader digital economy, providing a set of incentives for the firms offering ITES services, and financing establishment of ITES centers with renovated office space to enable development of their business (Component 2). Finally, Component 3 will enable better strategic guidance and focus policy actions to support ITES business development in Uzbekistan, which will benefit the private sector, including SMEs.
3	Gender and Development [IDA20 Special Theme]	<b>Closing the gap in digital technology</b>	At least 30 IDA20 operations in digital development, financial inclusion, and agriculture will increase women's access to and usage of digital technology to close gender gaps in access and usage.	<b>YES.</b> The project is expected to reduce the gender gap through specific activities that will aim to address gender needs by: (i) assisting in creating an enabling environment and laying the foundations for establishment of ITES centers and attracting private investment for ITES companies to expand their presence throughout the country, including in rural areas, which will create the prerequisite for hiring unemployed workers for better-paying jobs, including women (Component 1); (ii) providing 6177 people (of which 50 percent will be women) with training in digital skills (Component 1); and



				(iii) ensuring that women get at least 50 percent of jobs generated through the Project (Component 2) . Expected indirect gender impacts from the Project include providing women with more opportunities to work in the new ITES jobs from home, thus easing their barriers to workplace entry, and the new jobs promoting social cohesion and hence reducing gender-based violence.
4	Human Capital [IDA20 Special Theme]	<b>Expanding adaptive social protection and building resilience to shocks</b>	To ensure inclusive and effective response against shocks and crises, support at least 20 IDA countries’ resilience by building adaptive social protection systems, including the use of digital technologies.	<b>NO</b>
5		<b>Expanding access to core services for persons with disabilities</b>	To promote inclusive societies, support at least 18 IDA countries to meet the needs of persons with disabilities by implementing the principles of universal access through projects in education, health, social protection, water, urban, digital development and/or transport.	<b>YES.</b> The Project will involve proactive engagement with persons with disabilities to ensure that they participate in the digital and soft skills training program under Component 1 and get employed by ITES companies receiving incentive packages under Component 2 (at least 4 percent of persons with disabilities participation in both cases). Thus, the Project will contribute to improved digital inclusion and employability of persons with disabilities.
6	Governance and Institutions [IDA20 Cross-Cutting Issue]	<b>Enabling digital government services</b>	Support at least 15-20 IDA countries to adopt universally accessible GovTech policies, regulations, or solutions to enable digital government services.	<b>NO.</b>