I. Introduction and Context

Country Context

Uzbekistan has experienced impressive shared growth. Economic growth outpaced economic growth in most Europe and Central Asian and OECD countries. GDP growth averaged 8.2% per year over the period 2004–12 according to official statistics, and reached US$56.8 billion (in 2013, current US$, World Bank), while GDP per capita grew on average 6.4% per year over the same period. Poverty declined from 27.5% of the population in 2001 to 15.0% in 2013. The Government of Uzbekistan (GoU) has set itself an ambitious development agenda known as the Vision 2030, which is further elaborated in the 2017-2021 Development Strategy. Under the 2017-2021 Government Strategy, the Government has identified five priority directions for reform including a pillar on economic growth and liberalization. The Strategy is aimed at achieving 2030 goals which include lifting 2012 gross national income per capita from US$1,700 to more than US$4,000, thereby reaching upper middle-income status.

Uzbekistan’s economic reform agenda, coupled with the impact of the economic slowdown of its neighboring countries on migrant labor, are resulting in some emerging socioeconomic challenges that are critical to be addressed for a sustainable growth and as well as political stability. These include: increasing concerns about employment outcomes among youth, women and return migrants, and therefore their economic and social inclusion; managing the transition from a state-dominated economy to a private sector-driven economy; and managing the economy’s shift away from agriculture toward industry and services, and towards more intensive use of modern production techniques.

There are increasing concerns about employment outcomes among youth, women and return migrants. First, Uzbekistan has a young and growing population. A quarter of its 31 million population is under the age of 14, and almost 20 percent of the population is between 15 and 24 years of age. Therefore, the country is facing the challenge of creating sufficient and good jobs given the rapidly increasing
labor force which grows by an average of 500,000 people per year. Second, jobs outcomes among women are significantly lower than jobs outcomes among men. Women are underrepresented in employment, and women are disproportionately represented among unpaid care work. Third, the economic slowdown in the Russian Federation has led to decreased remittances from migrant workers from Uzbekistan.

GoU is accelerating its transition from a state-dominated toward a private sector-driven, market-based economy. This transition from state dominance has become more urgent because of the realization that Uzbekistan’s public sector will not be able to create the large number of jobs required to meet the needs of a labor force that is projected to continue increasing until 2040. In this context, GoU is putting more effort into supporting the micro, small and medium enterprise (MSMEs) sector by increasing access to finance, removing the bias against credit provision and strengthening the skills and entrepreneurial capacity of MSMEs.

Uzbekistan’s economy is transforming, with a shift away from agriculture toward industry and services, and towards more intensive use of modern production techniques. The Government’s 2017 – 2021 Development Strategy aims to improve the investment climate and infrastructure, and privatize and modernize specific sectors. Implementation of the strategy is expected to result in firms demanding more workers with higher-order analytical and organizational skills that cannot be easily automated. Therefore, Uzbekistan’s challenge will be to build skills for tomorrow’s economy in the face of rapid modernization and change, and to support private sector growth and productivity. The engine of sustained long-term growth in a robust economy is a well-skilled workforce that meets the demands of a dynamic labor market focused on high value-added industries.

The proposed project aims to support Uzbekistan’s job creation strategy by addressing specific labor market challenges from both the demand and supply sides. This will entail: (a) supporting the growth and productivity of private enterprises, especially the MSMEs where labor intensity is expected to be higher (more jobs); (b) addressing the skills gap and enhancing skills of job-seekers in order to enhance their employability in higher wage jobs (better jobs); and (c) ensure inclusiveness of labor market interventions, especially for youth, women, and return migrants and improving access to labor information and labor market intermediation services (inclusive jobs).

**Sectoral and Institutional Context**

Uzbekistan’s public sector will not be able to create the large number of jobs required to absorb the growing population and hence, private sector development and investment are essential for creating high-productivity, high-paying jobs for its growing population. This is in turn vital to sustaining economic growth, reinforcing social stability, and enabling further improvements in the welfare of the bottom 40 percent households. Additionally, in the context of an economy undergoing transformation from agriculture to industry and services, the Government recognizes that improving labor market matching and skills are important requirements among other reforms to increasing productivity and maintaining Uzbekistan’s global competitiveness.

The first challenge in Uzbekistan’s labor market is that of the limited supply of private sector jobs. A 2014 study shows that state-owned enterprises (SOEs) remain the largest employer (37 percent), followed by self-employment (34 percent), while private firms provide only about 20 percent of the employment. The report also shows that ninety percent of all the self-employed workers interviewed in the survey work at firms with fewer than six workers, and around 70 percent of all self-employed individuals do not employ any additional workers. The GoU is keen to develop and promote growth of the micro, small and medium enterprise (MSME) sector, as it entails a great potential for job creation and economic growth. To develop appropriate interventions in support of MSMEs, it is
important to understand and address the constraints faced by different sizes of MSMEs.

Constraints for smaller MSMEs include: (i) access to finance due to collateral requirements of 125% to 150% of loan value, along with the terms of finance – both in high interest rates and short terms of lending. While such terms may work for firms engaged in trade with rapid turnaround of inventory, MSMEs wanting to finance assets or growth struggle to borrow; (ii) smaller MSMEs also face a range of skills gaps both in general management and financial literacy as well as with respect to technical skills needed to improve productivity in their field; and (iii) constraints for larger MSMEs include their ability to comply with standards required in export markets. These standards may include specific technical regulations governing how goods are prepared and packaged, requirements for market entry, and both specific technical and general management skills. In many sectors, Uzbekistan’s standards are not harmonized with potential export markets and the required quality infrastructure may not be in place to help firms meet the standards.

The second challenge in the labor market is related to relevant skills and information gaps. Skills gaps make it hard for firms to find the caliber of employees they need, while information gaps make matching between worker skills and employer needs difficult and inefficient. Moreover, there are limited opportunities for relevant training and re-training for adults in the country. Uzbekistan uses vocational training for about 80 percent of its secondary school students, where they receive narrow and specific training that does not easily support job mobility. The problem of access to job-oriented and relevant training opportunities is compounded by the fact that less than one-quarter of all firms offer their full-time employees formal training programs. This is less than half the proportion of firms offering training in Eastern Europe. In addition, the effectiveness of the public employment centers (managed by the Ministry of Labor) in providing referrals of job-seekers to job vacancies and skill upgrading opportunities, as well as registering vacancies and helping employers to fill open positions, is hindered in many cases by poor infrastructure, low visibility within the community, little outreach to employers, and lack of provision of counseling and other services to job-seekers. In addition, some harder to employ groups (e.g. youth, women, returning migrants) appear not to receive specialized attention at employment centers.

**Relationship to CAS**

The project is closely aligned with the strategic objectives of the WBG’s Country Partnership Framework (CPF) for Uzbekistan for Fiscal Year 2016-2020. The CPF’s principal objective is to support the Government’s goal of creating productive and sustainable jobs. The project contributes specifically to the first focus area of the CPF – private sector growth and job creation. The project will contribute to the Government’s plan to shift from state-dominated investment and growth to a private-sector driven growth and job creation, especially focusing on the MSMEs where more jobs are expected to be generated; it will also support a private-sector led model for delivering the market-driven skills upgrading needed for higher productivity and growth of private enterprises. By improving labor intermediation, targeted outreach, and an incentive structure to reach vulnerable job-seekers, the project will also support the inclusion agenda, contributing to an inclusive job market. The proposed project is also in line with the Government’s priorities, as reflected in the 2017-2021 Development Strategy, with focus on supporting private-sector growth and addressing the skills gap. The project is moreover featured in the Government’s Directive “On Measures to Further Expand the Financial Corporation with the World Bank”, July 2016.

**II. Proposed Development Objective(s)**

**Proposed Development Objective(s) (From PCN)**

The proposed project development objective (PDO) is to improve the employment outcomes among
job-seekers; and enhance the capacity of micro, small and medium private enterprises to create jobs.

More specifically:
(i) Employment outcomes among job-seekers will be improved as evidenced by greater workers mobility from a lower to higher wage jobs, job security as evidenced by formal employment contracts, and greater duration in jobs following skills upgrading;
(ii) New jobs will be created by MSMEs that are supported by the project as they expand their production, and grow within the spectrum of MSMEs sizes.

Key Results (From PCN)
The project outcome indicators will include:
(i) Rate of job placement of those receiving employability and skills training support (disaggregated by gender, youth, return migrants);
(ii) Percentage of increase in earnings among those receiving employability and skills training support (disaggregated by gender, youth, return migrants);
(iii) Satisfaction rate among job-seekers regarding the services provided by the public employment centers;
(iv) Number of jobs created by the MSMEs borrowing from the MSME Line of Credit (disaggregated by gender, youth).

Further indicators related to employment outcomes, such as workers mobility from lower to higher wage jobs, job security and duration in jobs following skills upgrading, will be included as the intermediary outcome indicators in the project’s results framework.

III. Preliminary Description

Concept Description
The proposed project will improve the quality of job outcomes through labor market intermediation and skills upgrading, as well as facilitate the growth in new job creation among MSMEs. These will be achieved through: (i) enhancing the effectiveness of labor market intermediation, including for hard-to-reach groups, while providing access to and enhancing the effectiveness of skills training that is responsive to private sector labor demand; and (ii) improving access to financial and non-financial services by MSMEs, especially those with the potential for creating more and better jobs, and therefore contribute to higher growth and productivity. The project design will include features that ensures gender equity in accessing project-supported labor market opportunities. An incentive structure will be developed to encourage PFIs and training providers to target and reach to female-owned MSMEs and female job-seekers.

The project will include the following components:

Component 1: Labor market intermediation and skills upgrading. The component aims to increase labor productivity and employability by improving job matching and upgrading skills to respond to employers’ demands.
Component 2: Financial and non-financial services for MSMEs. The component aims at addressing key constraints faced by the MSME sector in their access to financial and non-financial services.

IV. Safeguard Policies that Might Apply

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
<th>TBD</th>
</tr>
</thead>
</table>

Yes

No

TBD

Page 4 of 6
Environmental Assessment OP/BP 4.01 X
Natural Habitats OP/BP 4.04 X
Forests OP/BP 4.36 X
Pest Management OP 4.09 X
Physical Cultural Resources OP/BP 4.11 X
Indigenous Peoples OP/BP 4.10 X
Involuntary Resettlement OP/BP 4.12 X
Safety of Dams OP/BP 4.37 X
Projects on International Waterways OP/BP 7.50 X
Projects in Disputed Areas OP/BP 7.60 X

V. Financing (in USD Million)

<table>
<thead>
<tr>
<th>Total Project Cost: 100.00</th>
<th>Total Bank Financing: 100.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing Gap: 0.00</td>
<td></td>
</tr>
<tr>
<td>Financing Source</td>
<td>Amount</td>
</tr>
<tr>
<td>International Development Association (IDA)</td>
<td>100.00</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
</tr>
</tbody>
</table>

VI. Contact point

World Bank
Contact: Afrah Alawi Al-Ahmadi
Contact: Christopher David Miller
Title: Sr Social Protection Specialis
Title: Senior Private Sector Speciali
Tel: 458-4158
Tel: 5763+157 / 9
Email: aalahmadi@worldbank.org
Email: cmiller1@ifc.org

Borrower/Client/Recipient
Name: Republic of Uzbekistan
Contact:
Title:
Tel:
Email:

Implementing Agencies
Name: Ministry of Labour of the Republic of Uzbekistan
Contact: Aziz Abdukhakimov  
Title: Minister  
Tel: 03712394121  
Email: abdukhakimov@mehnat.uz

VII. For more information contact:

The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
Telephone: (202) 473-1000  
Web: http://www.worldbank.org/projects