

INTER-AMERICAN DEVELOPMENT BANK



COLOMBIA

**TELEFÓNICA MÓVILES COLOMBIA
(CO-L1020)**

**ENVIRONMENTAL AND SOCIAL MANAGEMENT REPORT
(ESMR)**

November 2007

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I PROJECT DESCRIPTION

- 1.1 Telefónica Móviles Colombia S.A. (“Movistar” or the “Company”) is a Colombian mobile telecommunications provider that is a wholly owned subsidiary of the Telefónica group of Spain (Telefónica Spain), which acquired the Company from BellSouth in 2004.
- 1.2 Movistar is the second largest mobile company in Colombia with approximately 26% of total market share and since its acquisition by the Telefónica group of Spain, it has invested heavily in creating its GSM network, as part of its strategy to enhance competition and increase its market share in the Colombian mobile telecommunications market. The Company’s business plan contemplates up to US\$1.1 billion of investments over the next 3 years in order to (i) expand coverage from 60% to close to 90% (based on served municipalities) (ii) finalize a nationwide GSM footprint migration, (iii) increase the subscriber base from over 7.5 million to approximately 12.5 million in 2010, and (iv) improve reliability of voice and data services.
- 1.3 The IDB is evaluating the possibility of providing an A/B loan of up to approximately US\$600 million, including an A loan of up to US\$125 million, in order to optimize its capital structure by refinancing short-term financial obligations and to finance some capital expenditures and working capital needs as part of the Company’s overall program for the Colombian mobile market. The Company’s success will significantly enhance competition in Colombia, ultimately benefiting the mobile subscribers in the country

II ENVIRONMENTAL AND SOCIAL ASPECTS

- 2.1 The Environmental and Social Strategy was cleared by the Bank’s Environmental and Social Review (ESR) group on August 13, 2007 with no further action required in the ESR process. Given that the operation consists mainly of refinancing of existing loans and the financing of some capital expenditures that could generate minor environmental and social impacts, this operation was classified as Category C, per the IDB Environmental and Safeguards Compliance Policy. The due diligence focused on Movistar’s capacity to adequately manage the environmental, social, health and safety aspects of its existing operations and future expansions to the network.

A. Project Status and Compliance

- 2.2 Movistar operations are organized in five regional divisions that directly employ a total of 2,059 people distributed throughout 70 work locations. In the last year Movistar's cellular network has experienced a fast growth, increasing from 1300 cellular sites (cells) in April 2007 to more than 2100 by October 2007. In 2008 the company plans to install approximately 500 cells in urban areas and 250 cells in rural areas.
- 2.3 Given the limited environmental and social impacts associated with the construction and operation of the wireless network, no Environmental Impact Assessment (EIA) or similar document is required by the Ministry of Environment, Housing and Territorial Development (MMAVDT) nor was required by the IDB.¹ In some cases, an environmental license is required by the local environmental agencies imposing specific environmental requirements (the mitigation of visual impact, the monitoring of the levels of noise, etc) to projects within their jurisdictions. Movistar is in compliance with applicable requirements of the licenses and overall with applicable environmental and health and safety regulations in Colombia.

B. Environmental and Social Impacts

- 2.4 The most relevant environmental and social impacts from the operation of the network are the visual impacts from the towers, emissions from the use of refrigerants and air conditioning and the possible adverse effects on human health due to the emission of radio frequency (RF) signals to workers which can be exposed to higher RF signals from working near the antennas during maintenance tasks. Minor and sporadic operational impacts include generation of noise and air emissions during occasional operation of back-up diesel generators and the generation of waste (hazardous and non hazardous) such as batteries and wasted oil from maintenance activities
- 2.5 Movistar has partnered with other telephone wireless operators to co-locate equipment onto existing towers to reduce the visual impacts associated with the erection of new towers. In 2006 about 208 installations were developed under this co-locating concept. The company is also camouflaging antennas in some residential areas. Over 15 towers have been camouflaged or painted to match the environment.
- 2.6 During 2006 some 20 sites were evaluated for electromagnetic emissions and in all cases the measurements were under the regulatory established limit. Movistar,

¹ While the local regulation does not require any type of environmental assessments for installation of base stations, Telefonica has performed 131 voluntary environmental analysis, which accounts to close to 10% of the total number of sites.

in partnership with other operators and the local regulators, provides information to the public on the possible effects of electromagnetic fields.

- 2.7 Movistar has programs in place to manage the collection and disposal of different kinds of waste, including the disposal of hazardous waste. A pilot project has been established with the local regulators to collect, reuse and recycle electronic waste including mobile phone batteries. As October 2007, close to 50,000 pieces of electronic equipment had been collected and 8,000 were in the process of being shipped for reuse/recycling. A marketing campaign has been defined and agreements with the regulatory agencies are in place to strengthen the collection of electronic waste for its further recycling.
- 2.8 The characteristics of the sites where a new cellular station will be located influence the type of environmental and social impacts anticipated during construction. In general, the construction of cellular stations sited in urban areas can cause noise and other temporary nuisances during the approximately 1-week period required for construction and erection of the towers. In addition, in some rural areas some clearing of vegetation might be required. The principal risks during construction are related to the safety of the workers while working at heights and with energized systems during the erection of the towers for the installation of the antennas. These impacts and risks are temporary and can be reduced by the implementation of standard mitigation measures.
- 2.9 Movistar is not directly affected by regulations regarding climatic change or emission trading but the Company has voluntarily committed to define an action plan to mitigate its effect on climatic change. Efforts in 2007 were centered in improving the data collection of energy consumption and improving the quantification of savings after implementing measures of energy efficiency. Some actions within the energy efficiency plan include: reduction of capacity of existing fuel tanks (from tanks of 600 or 800 gallons to tanks of 250 gallons), eliminate the auxiliary energy plants from the design of new sites located in areas with reliable electricity supply, scheduled start up and shut down of equipment, savings campaigns, revision of equipment and meters, replacement of lamps, analysis of substitution options for fuel power plants with solar panels or hydrogen cells, and changing to more environmental friendly refrigerant in air conditioning equipment.

C. Environmental and Social Management

- 2.10 Movistar has developed an Environmental Management System (EMS) compliant with ISO 14000. The EMS achieved its certification in June 2007. The EMS has specific processes for the operation and maintenance of the voice and data network as well as for network development and construction (viability, search and negotiation of sites; construction of infrastructure and platforms). The process of site selection involves an interdisciplinary team that participates in the selection of the sites, the assessment of the environmental impacts, the processing

- of applicable permits, communication with the local community and regulators addressing any community or legal concerns. The EMS has an internal auditing program in place that includes scheduled audits and over 300 employees are trained in environmental auditing. Findings are presented as corrective actions and implemented. Additionally, for compliance with the ISO 14001 norm, external auditing of the system is conducted every year.
- 2.11 Movistar has a Health and Safety management system that is aligned with the EMS. The Company's Integrated Occupational Health System includes 5 main components: prevention against falls, psychosocial factors, ergonomics and sport culture, preventive work medicine, and environment. Under this health and safety system incidents are tracked, procedures for specific job functions (like work on heights) are implemented, training is conducted and corrective actions are implemented. The scope of the system includes training and supervision of contractors. Currently the main activity producing health and safety incidents is transportation, followed by sport related injuries for which training is provided for defensive driving and sport medicine.
- 2.12 Contracts between Movistar and its suppliers include specific environmental clauses. These clauses aim to guarantee compliance with environmental legislation, including waste management. Workshops have also been implemented for training, monitoring and sensitizing the contractors to the relevant significant environmental aspects. Critical suppliers in the areas of construction, maintenance, fuel, cleaning and security are subject to Movistar internal training processes. Specific supplier requirements within the EMS include the following areas: construction, transportation of fuels, chemical products (solid and liquid), dangerous products, gas cylinders (including fire extinguishers), fumigation, operation or maintenance, transportation of equipment, calibration and measurement.
- 2.13 During the selection of new sites the company meets with the local community to address their concerns, places at the site a sign with the project information, and publishes a description of the project in the local newspaper. The EMS has procedures to track and resolve petitions, questions and claims. An electronic scorecard is used for claims for both new and existing sites. The main issues recorded historically as claims are related to noise, vibration and existence of a tower. Petitions, questions and claims are received by the environmental area, an evaluation of each case is performed, necessary monitoring is carried out and a report of environmental results is presented. Based on this report resources are allocated to implement improvement actions.
- 2.14 Starting in 2006, the company also publishes annually an environmental report and an externally verified corporate responsibility report, both of which are available to the public on the company's website.

- 2.15 Movistar is affiliated with CECODES (Business Center for Sustainable Development), participates in the board of directors of the Colombian Committee of Business Responsibility, and is member of the National Association of Industrials (ANDI), which gathers different business and industrial sectors of the country and participates as a group with the environmental authorities in the promotion and discussion of environmental norms. It also belongs to the Association of Mobile Phone Businesses (ASOCEL) which works with the local regulatory agencies advising on the community issues related to the expansion of mobile communication networks. In 2006 ASOCEL also hired the Bioparque Corporation, to formulate a Political Framework and a Unified Industry Procedure that incorporates social protocols in the processes of installation of antennas (including community education regarding electromagnetic fields).

D. Recommendations

- 2.16 The Bank will require Movistar to comply with all applicable environmental, health and safety regulations in Colombia, applicable IDB policies, in particular the Environment and Safeguard Compliance Policy and all aspects and components of Movistar EMS. The Bank will perform supervision and monitoring activities of the Project during the life of the Loan.