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July 1, 2005

Priority Sector Lending – Investment by banks in venture capital

The concept of priority sector lending was introduced in 1969 to underscore the necessity of financing by banks of certain neglected sectors like agriculture. Although initially there were no specific targets fixed in respect of priority sector lending, the banks were advised in November 1974 to raise the share of their lending to this sector to the level of 33¹/₃ per cent of their aggregate advances and subsequently to 40 per cent. The investments made by the commercial banks in venture capital are reckoned under priority sector lending with effect from April 24, 1999, provided the venture capital funds/companies are registered with Securities and Exchange Board of India (SEBI).

On a review of the recent developments, including overall credit growth and growth of investment in venture capital vis-à-vis other sectors, it has been decided that:

- (i) the fresh investments that may be made by banks on or after July 1, 2005 in venture capital shall not be eligible for classification under priority sector lending; and that
- (ii) the investments, which have already been made/to be made by banks up to June 30, 2005, in venture capital shall not be eligible for classification under priority sector lending with effect from April 1, 2006.

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Manager

Press Release : 2005-2006/3