

IMPACT OF LOCAL SUBSIDIES ON THE DEVELOPMENT OF ENTREPRENEURIAL BUSINESSES

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Abstract: *Local subsidies represent one of the key instruments of economic policy used by local governments to encourage self-employment and the development of entrepreneurship, especially in conditions of economic uncertainty. The subject of this paper is the analysis of the impact of local subsidies on the development of sole proprietorship businesses in the city of Bijeljina. The aim of the paper is to examine the extent to which local subsidies contribute to the establishment, survival, and stability of sole proprietorship businesses, as well as to identify the main challenges entrepreneurs face after using this type of support. The paper is based on the assumption that local subsidies have a positive, but temporally and structurally limited, impact on the development of sole proprietorship businesses. The research is designed as an empirical analysis, based on available data from the local government and relevant business performance indicators of subsidized businesses. The results of the paper can serve as a basis for improving local support measures for self-employment and for creating more efficient policies aimed at the sustainable development of entrepreneurship at the local level.*

Key words: *local subsidies, self-employment, entrepreneurship, Bijeljina*

JEL classification: *H71, L26, R58*

1. INTRODUCTION

The subject of this paper is the analysis of the impact of local incentive measures on the establishment of independent entrepreneurial

ventures in the city of Bijeljina. In an environment where entrepreneurs face strong competition and high start-up costs, support from local communities often represents a key factor for market survival. This analysis focuses on the period of the last three years (2022, 2023, and 2024), during which the city of Bijeljina, through public calls, sought to provide support for the development of independent entrepreneurial ventures.

Entrepreneurship represents an important driver of economic growth in modern economic conditions. According to Paunović (2021), entrepreneurship can be defined as a dynamic process of creating added value undertaken by individuals who assume risks in terms of capital, time, and career.

As the regional center of Semberija, the city of Bijeljina has, in recent years, actively utilized budgetary funds to facilitate the start of business activities for independent entrepreneurs through subsidies and to promote self-employment.

Research on economic practice indicates that the lack of initial capital is the most common barrier to establishing independent entrepreneurial ventures, especially in smaller and medium-sized economic environments. High market entry costs, which include the procurement of equipment, rental of business premises, and mandatory contributions, often exceed the accumulated savings of potential entrepreneurs. In such circumstances, local subsidies are positioned as a key support instrument, providing financial assistance for business activities. By offering this type of support, the city of Bijeljina directly contributes to

mitigating initial market risks, creating an environment in which a business idea can transition into a phase of real market viability.

Based on the above, this paper is focused on analyzing the effects of local incentive policies on the development of independent entrepreneurial ventures in the city of Bijeljina. By applying descriptive and empirical methods, the primary focus of the research is to examine the impact of local subsidies on the development of entrepreneurial ventures in Bijeljina.

Through this research, the paper will test auxiliary assumptions regarding the distribution of subsidies and the intended structure of their use, in order to determine whether they can serve as an effective instrument of economic policy and to assess the actual impact of budgetary support on the local economy. The results of the study may serve as a basis for improving local policies aimed at supporting self-employment.

2. LOCAL SUBSIDIES AS AN INSTRUMENT TO SUPPORT SELF-EMPLOYMENT

2.1. THE CONCEPT AND IMPORTANCE OF LOCAL SUBSIDIES

Local subsidies represent one of the most significant instruments of local economic policy, through which local government units seek to stimulate economic activity, employment, and the development of entrepreneurship. They are most commonly implemented through direct financial support, tax incentives, reduction of local fees, or through various forms of institutional and infrastructural support for entrepreneurs.

According to the research of Trinajstić et al. (2022), the primary role of local development policies is the creation of a favorable business environment and new job opportunities, thereby directly contributing to the economic development of the local community. At the same time, encouraging entrepreneurship leads to an increase in the supply of goods and services, growth of population income, and strengthening of local government budget revenues. In this regard, Grilli and Murtinu (2024) emphasize that local subsidies targeting entrepreneurial ventures not only facilitate their establishment but also significantly increase business survival rates during the initial years of operation, thereby creating greater value for the local community.

Through subsidies, local authorities aim to create conditions that will attract new entrepreneurs, but also retain existing ones. In addition to financial support, non-financial forms of support also play a significant role, such as the simplification of administrative procedures, infrastructure

development, and improvement of local government services. These measures enable a more stable business environment and long-term development of the local economy (Trinajstić, 2022).

Local self-government plays an important role in encouraging entrepreneurship. In addition to providing favorable economic conditions, fiscal measures, and support programs, active cooperation with entrepreneurs can directly contribute to the establishment of new businesses and increased economic activity within the community.

The importance of local subsidies is also reflected in the fact that they contribute to the creation of new jobs, retention of the population in the local community, and improvement of quality of life. In addition, subsidies enable easier business start-up and reduce initial business costs, which is particularly important for beginners in entrepreneurship (Trinajstić, 2022).

2.2. SUBSIDIES AND THE DEVELOPMENT OF SOLE PROPRIETORSHIP BUSINESSES

Subsidies can stimulate innovation by mitigating risks and compensating for potential losses, thereby encouraging firms to invest in new ideas (Liu & Xia, 2025). Similarly, Leonard (2024) emphasizes that direct government support acts as a crucial stimulus for innovative activities, enabling entrepreneurs to overcome initial market barriers and focus on creating added value.

Subsidies provide entrepreneurs with the opportunity to focus on developing their business ideas and improving the range of services they offer, which enables them to be more competitive in the long term and to develop their businesses more steadily within the local economy. Financial support in the form of direct subsidies can encourage the introduction of novelties and innovations, as it motivates entrepreneurs to develop new products and services and increases their innovation potential.

In addition to financial incentives, local authorities can also provide non-financial support, such as advisory services, training, and assistance with administrative procedures. This type of support increases the chances of long-term survival of entrepreneurial businesses and enables faster adaptation to market conditions.

Programmatically combined support, which includes both financial and advisory elements, enables entrepreneurs to achieve long-term sustainability of their businesses and contributes to the growth of the local economy. Financial and

non-financial support through subsidies can significantly facilitate the development of entrepreneurial businesses, while its effectiveness depends on the manner of implementation and monitoring of effects on the local economy.

2.3. SELF-EMPLOYMENT AS A FACTOR OF LOCAL ECONOMIC DEVELOPMENT

Self-employment is an important tool for the development of the local economy, as it allows individuals to independently initiate business activities and thereby directly contribute to job creation and the growth of economic activity within their communities. Local economic development encompasses all measures undertaken by local actors and authorities to utilize available resources and create a favorable business environment.

The goal is to optimally leverage the advantages of the local environment, such as location, natural resources, entrepreneurial potential of local authorities, sector structure, competitive advantages of existing businesses, infrastructure development, workforce education, demographic factors, business environment, management practices, and socio-cultural conditions. Within this framework, self-employment enables individuals and small entrepreneurs to actively participate in the development of the local economy. By starting their own businesses, they not only stimulate economic activity but also foster innovation and increase competitiveness in the local market. Furthermore, this approach demonstrates the importance of local support, through subsidies and other forms of entrepreneurship incentives, for sustainable community development. In the context of Bijeljina, this is particularly significant, as it helps retain the population and reduces migration pressures toward larger centers.

The theoretical aspect of self-employment covers a wide range of topics, from economics and sociology to psychology. It includes understanding how individuals build and manage their businesses, their motivations for self-employment, the challenges they face, and the impact of self-employment on the broader economy. From an economic perspective, self-employment is regarded as an important source of micro-entrepreneurship and innovation, contributes to economic diversification, creates new jobs, and stimulates competition (Sproge, Joppe & Solovjova, 2024).

Local economic development represents a process through which local authorities, together with public organizations, the non-governmental sector,

and businesses, develop a better business environment. Modern local economic development policy increasingly assumes a partnership role with the private sector, facilitating its growth and operations. Such policies are often developed in the form of public-private partnerships, aimed at supporting private investments for the benefit of the entire community. In this regard, Mazur et al. (2023) point out that establishing a rational model for managing capital structure is crucial for a firm's long-term stability, further underscoring the importance of proper subsidy allocation as external funding sources that support local economic development.

The importance of strategic planning for local economic development is emphasized in all textbooks and studies dealing with the causes of local economic growth. Without a quality strategy, local economic development is reduced to ad hoc actions by various actors, ranging from local government officials to representatives of associations and entrepreneurs. Developing a high-quality strategic plan requires awareness of the need and purpose of such a strategy, which implies the existence of clear political will and the capacity of local actors to implement planned measures. The ultimate goal of these measures should be the creation of new jobs for the local population, i.e., reducing unemployment and increasing fiscal revenues for the local government (Rapaić & Matijević, 2022). Overall, self-employment represents an important component of modern local economic development policies, as it links individual initiative with the developmental goals of the local community. Its significance is reflected not only in economic outcomes but also in strengthening the entrepreneurial culture, activating local resources, and promoting sustainable development. The success of this process largely depends on coordinated action by local institutions, strategic planning, and continuous support for entrepreneurship. Therefore, self-employment should be viewed as a long-term development potential that can contribute to the stability and economic resilience of local communities.

3. SUBSIDY PROGRAM IN BIJELJINA

The following section of the paper focuses on the support mechanisms implemented in practice by the city of Bijeljina. Through the institutional actions of the City Administration, with an emphasis on the relevant Department of Economy, incentive programs are continuously applied to reduce unemployment and stimulate entrepreneurial initiative. The subject of the forthcoming analysis will be the structure of public calls for the allocation of subsidies, accompanied

by statistical data illustrating changes in the number of newly registered business entities during the observed period from 2017 to 2024.

3.1. ANALYSIS OF PUBLIC CALLS

The allocation of funds for business incentives in Bijeljina is based on structured annual programs. When analyzing calls from the last three years, a clear intention of the local administration can be observed to shift the focus from general consumption toward direct investment in the production and service capacities of newly established ventures. According to data from the Official Gazette of the City of Bijeljina, No. 11/24, the city, through entrepreneurship support programs, has defined clear economic priorities by directing budgetary funds to unemployed individuals registered with the Employment Office – Bijeljina Bureau. (Službeni glasnik grada Bijeljina, 2024).

Control mechanisms: The Rulebook on the Conditions and Procedure for Obtaining Incentive Funds for Entrepreneurial Self-Employment for 2024, Article 9, clearly defines the conditions for obtaining funds:

- o The applicant must be registered as unemployed with the Employment Office – Bijeljina Bureau for at least one month prior to the announcement of the public call,
- o The applicant must have completed registration or initiated the registration process of a sole proprietorship as their main occupation in the territory of Bijeljina after the announcement of the public call, provided that prior to the registration and call announcement, they were registered as unemployed with the Employment Office – Bijeljina Bureau,
- o The applicant must submit a request for incentives along with a business plan and
- o The applicant must have permanent residence in the territory of the city of Bijeljina.

However, unemployed individuals cannot receive self-employment subsidies if they:

- o Have conducted the same or similar business activity and deregistered it within the 12 months prior to the announcement of the public call,
- o Have previously received self-employment incentives from the Employment Office RS, Bijeljina branch, the City of Bijeljina Small and Medium Enterprises Development Agency, or other city budget funds; that is, they have not used non-repayable funds from other sources for self-employment or business start-up purposes..

Article 4 of the Rulebook also specifies that funds for financing self-employment are intended for 26 individuals, amounting to BAM 5,000 per employed person, totaling BAM 130,000 for 2024. Article 5 stipulates that incentive funds may be used for the purchase of fixed assets, equipment, inventory, raw materials, spare parts, computer equipment, business software, payment of entrepreneur's salary contributions, bookkeeping costs, and other expenses necessary for conducting registered business activities. Article 6 specifies that incentive funds cannot be used for costs including: purchases made before signing the subsidy agreement, procurement of assets, equipment, inventory, or raw materials from an unregistered individual, purchases from a business entity in which the applicant has a share in the basic capital, value-added tax, legally prescribed fees and charges, costs related to obtaining and executing bank loans or financial leasing, and other expenses not aligned with the business plan submitted for the public call.

Transparency: Article 17 of the same Rulebook establishes the criteria for scoring applicants who meet the requirements specified in the Public Call for self-employment subsidies. When evaluating applications, the following criteria are considered: type of planned activity, category of self-employed individual (over 40 years old, duration of active unemployment), resources required to start the business (business premises, equipment), market conditions (customers, suppliers, competitors), female entrepreneurship, belonging to target groups (children of deceased VRS fighters, categorized demobilized VRS fighters, persons with disabilities and RS war veterans), and scoring of the submitted business plan. (Pravilnik o uslovima i načinu ostvarivanja podsticajnih sredstava u funkciji samozapošljavanja preduzetnika, 2024).

3.2. STATISTICAL OVERVIEW AND COMPARATIVE ANALYSIS OF EFFECTS

In order to analyze the actual impact of local incentives, it is necessary to compare the period before intensive investment (2017–2019) with data from the period of active implementation of subsidy measures, during which these measures became a systematic tool for supporting newly established entrepreneurial ventures in Bijeljina (2022–2024). Based on the available data from the official website of the City of Bijeljina (gradbijeljina.org), the observed years can be analyzed as follows.

Period before intensive subsidies (2017–2019): During this three-year period, the number of new registrations remained relatively low and stable,

with an average of approximately 233 new entrepreneurial ventures per year. (gradbijeljina.org). The most significant change in the observed period occurred in 2021, when the number of newly registered ventures reached a maximum of 413 entrepreneurs, representing an increase of nearly 60% compared to the previous year. This trend continued in 2022, with 396 new registrations. Chronologically, this surge coincides

with the introduction of stronger self-employment subsidy programs by the local government. These data demonstrate that the availability of non-refundable funds acted as an effective support mechanism for a large number of unemployed individuals, enabling them to successfully realize their business ideas for the purpose of self-employment. (Nastavljen rast broja preduzetnika, 2022).

Graph 1: Overview of Newly Registered Entrepreneurs in Bijeljina (2017–2025)



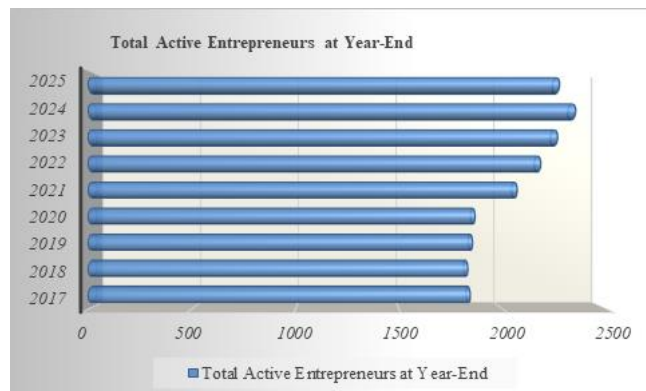
Source: Authors' compilation based on data from the Department for Economy of the City of Bijeljina (2017–2024).

The total number of active entrepreneurs even recorded a slight decline in 2018 (from 1,843 to 1,831), indicating that the market was saturated and that new businesses struggled to survive without external financial support.

substantially contributed to the increase in the overall capacity of the local economy. The decline in the total number of active enterprises in 2025 to 2,273, despite 363 new businesses being established, according to data available on the City of Bijeljina website and the statement of the Head of the Department for Economy, Dušan Trifković, at the 2026 press conference, indicates that this situation was caused by the introduction, on January 1, 2025, of amendments in the Republic of Srpska to the Law on Income Tax, changes in the Law on Contributions, and the mandatory fiscalization requirement for all entrepreneurs. (Grad Bijeljina, 2026).

Although the number of new registrations after 2022 showed slight fluctuations (with a decrease to 354 in 2023, followed by a subsequent increase), the total number of active enterprises consistently grew until 2024, reaching a historic maximum of 2,351 active entities. This figure is significant, as it suggests that the subsidies had not only a short-term effect on business openings but also

Graph 2: Overview of the Total Number of Active Entrepreneurs at the End of Each Year



Source: Author's elaboration based on data from the Department of Economy of the City of Bijeljina (2017–2024)

4. EMPIRICAL ANALYSIS OF THE EFFECTS AND DESIGNATED USE OF INCENTIVE FUNDS

4.1. SPECIFIC FEATURES OF THE INCENTIVE CYCLE FOR 2022

The incentive cycle for 2022 represents a specific example from which the difference between planned funds and actual implementation in practice can be clearly observed. According to the official report on the implementation of the entrepreneurship development incentive program – self-employment for 2022 (No.: 02-014-1-1461-24/22), the total planned amount was BAM 130,000.00.

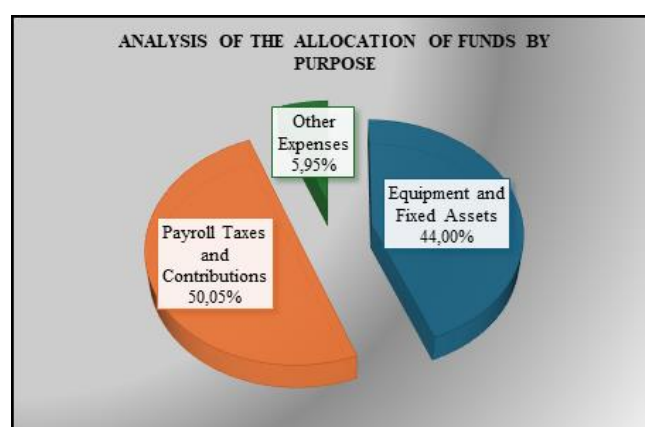
What is particularly significant for this year is that the individual subsidy amount was BAM 10,000.00 per beneficiary. This is an important piece of information, showing that the city of Bijeljina at that time opted for a support strategy that provided larger funds to a smaller number of entrepreneurs (13 in total) in order to ensure business sustainability and facilitate a serious start-up process. (Odeljenje za privredu, 2022).

Analysis of the Designated Use of Funds

Based on the report on the implementation of activities under the public call for the allocation of incentive funds for entrepreneurial self-employment, field inspections conducted by the commission responsible for managing the allocation procedures of self-employment incentive funds in 2022, and the analysis of justified expenses, **the investment structure in 2022 is as follows:**

For equipment and fixed assets, BAM 52,400.41 was invested, representing 44% of the total funds. This figure is significant, as it confirms that the subsidies enabled the technical and technological equipping of new businesses. Contributions for employees amounted to BAM 59,615.85 (approximately 50.05%), providing entrepreneurs with fiscal relief during the first and most critical year of operation. Other expenses, in accordance with the Rulebook, accounted for an additional BAM 7,085.08 (approximately 5.95%). (Odeljenje za privredu, 2022).

Illustration 1: Analysis of the Designated Use of Funds for 2022



Source: Authors' calculation based on the report on the implementation of the entrepreneurship development incentive program for 2022.

Effects on Employment and Sustainability

Research shows that the program exceeded its primary objective. Although self-employment was initially planned for 13 individuals, their activities resulted in a total of 16 newly employed workers.

Regarding market survival rates, the data are highly encouraging. A 12-month follow-up revealed that 11 out of 13 entrepreneurs continued their operations, while only two entities (UG "KUM" and TR "CIPELIĆI") deregistered their activities before the end of the contractual obligation. These figures indicate a success rate of 84.6%, clearly demonstrating that the selected

businesses possessed genuine market potential. (Odeljenje za privredu, 2022).

The expenditure structure indicates that the majority of subsidies were directed toward current liabilities (taxes and social security contributions), accounting for approximately half of the total funds. While a significant share allocated to equipment (44%) contributes to the technological strengthening of newly established enterprises, the high proportion of expenditure on contributions may point to structural issues in labor costs. This potentially diminishes the developmental impact of

the subsidies, as a smaller portion of the funds is channeled into productive investments.

4.2. ANALYSIS OF THE INCENTIVE PROGRAM FOR 2023

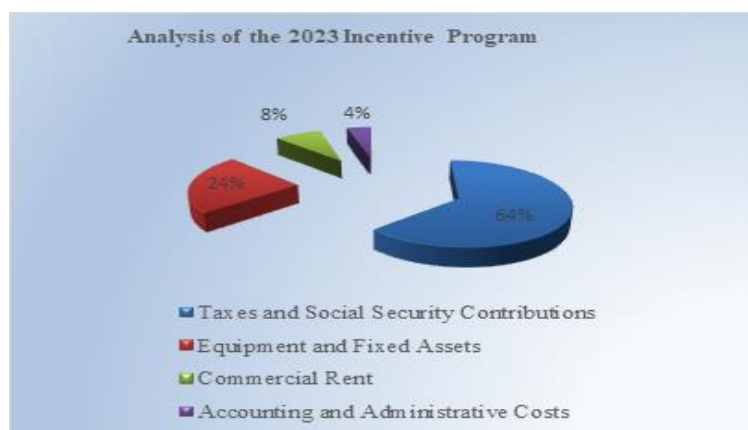
In 2023, a strategic shift by the local government became noticeable. Instead of the model applied in 2022, which supported a smaller number of entities (13) with larger individual grants of BAM 10,000, the city of Bijeljina decided to cover a broader range of beneficiaries. According to the official report (No. 02-014-1-1461-2/23), a total of 27 self-employed entrepreneurs were supported, with an individual subsidy amount of BAM 5,000.00, bringing the total allocation from the budget of the City of Bijeljina for this self-employment model to BAM 135,000. (Odeljenje za privredu, 2023).

Financial Structure and Purpose of Funds

The total funds disbursed in this cycle amounted to BAM 135,000.00. A detailed

examination of the justification of expenditures provides insight into how the funds were actually allocated: The largest portion of the funds, amounting to BAM 85,685.89 (63.47%), was spent on mandatory social contributions. This clearly indicates that in 2023 the subsidy primarily served as a fiscal relief instrument, relieving business owners of the burden of state levies during the critical first year of operation. A total of BAM 32,288.13 (23.92%) was allocated for the purchase of tools and inventory. This represents a significant decline compared to 2022 (when more than 40% of the funds were allocated to equipment), suggesting that the smaller subsidy amount (BAM 5,000) made it more difficult to cover both capital investments and current obligations. Rent expenses accounted for BAM 11,212.58 (8.31%), while the remaining funds were allocated to accounting and administrative costs. (Odeljenje za privredu, 2023).

Illustration 2: Analysis of the Purpose-Specific Allocation of Funds for 2023



Source: Authors' calculation based on the Report on the Allocated Use of Funds for 2023.

Effects on Employment and On-Site Sustainability

Although the individual subsidy amount was smaller, the effect on employment numbers was evident. A total of 32 people were employed in this cycle (27 owners and 5 additional employees). Of particular importance is the analysis of on-site inspections.

The commission determined that out of the 27 newly established businesses, 25 remained active even after the monitoring period. Specific cases illustrating the rigor of the control process include one entrepreneur who deregistered their business before the end of the term and one entrepreneur who had the status of temporarily suspended business activity. (Odeljenje za privredu, 2023).

The 2023 model proved to be highly successful in terms of business survival in the market (over 90% remained active), but it also demonstrated a reduced capacity for capital investment in enterprises compared to 2022.

The high proportion of funds directed toward taxes and contributions (exceeding 63%) confirms that the subsidy served as a key instrument for bridging the fiscal burden during the critical first year of operation, thereby ensuring the stability of newly established entrepreneurial shops.

With a sustainability rate of over 90% following the monitoring period, the 2023 program has proven to be an exceptionally effective mechanism for the survival of businesses in the local market, despite the reduced capacity for capital investments.

4.3. ANALYSIS OF THE INCENTIVE PROGRAM FOR 2024: CONSOLIDATION OF THE MODEL AND ECONOMIC SUSTAINABILITY

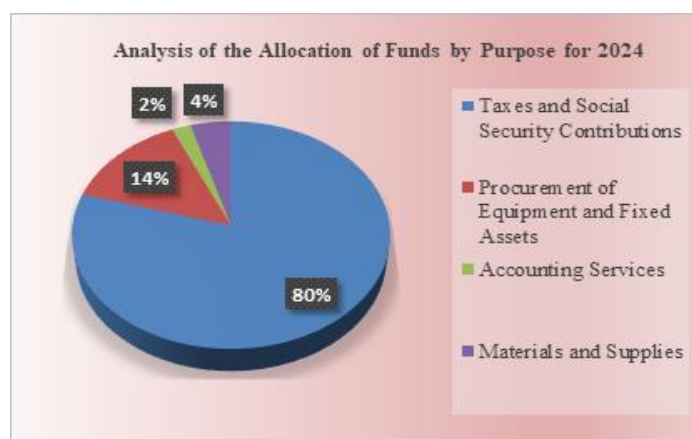
The 2024 program represents a phase of full stabilization of local incentive measures. Based on the Analysis of the Effects of the Entrepreneurship Development Incentive Program – Self-Employment for 2024, it is evident that the City of Bijeljina maintained the established model of BAM 5,000.00 per beneficiary, but with stricter selection criteria and more precisely defined priorities.

Financial Analysis and Cost Structure

The total amount of planned and disbursed funds for self-employment in 2024 amounted to BAM 130,000.00, providing support for 26 entrepreneurs.

Analyzing the expenditure structure based on the Analysis of the Effects of the Entrepreneurship Development Incentive Program – Self-Employment for 2024, as well as the available documentation, it is evident that allocations for taxes and contributions continued to dominate, totaling approximately BAM 104,642.04 (79.5% of total expenditures). Entrepreneurs primarily used the subsidy to ensure uninterrupted payment of social and health insurance, which allowed them to focus on developing their services during the first six months without the risk of financial blockages. Approximately 13.8% of the funds, or BAM 18,275.76, were directed toward the acquisition of fixed assets. Accounting services accounted for around 2.08%, or BAM 2,741.40, while approximately BAM 5,889.25 (4.47%) was allocated for the procurement of raw materials. (Odeljenje za privredu, 2025).

Illustration 3: Analysis of the Allocated Use of Funds for 2024



Source: Authors' calculation based on the Analysis of the Effects of the Entrepreneurship Development Incentive Program – Self-Employment for 2024.

Effect on the Labor Market and Current Status

The data for 2024 are highly positive regarding the “sustainability rate.” Considering that these businesses are in their first or second year of operation, a follow-up inspection conducted at the time of the analysis revealed that 23 entrepreneurial ventures continue to operate and remain active even after the contractual obligation period, while three entrepreneurs have closed their businesses.

The program directly resulted in 29 new jobs, but considering the total number of newly registered entrepreneurs in Bijeljina that year (393, according to previously mentioned data), it is evident that the city subsidy covered approximately 8% of all newly established businesses. (Odeljenje za privredu, 2025).

According to reports submitted by entrepreneurs to the commission responsible for administering the allocation of self-employment incentive funds in 2024, three entrepreneurs, in addition to self-employment, created one additional job each.

Based on these findings, it can be concluded that the 2024 Entrepreneurship Development Incentive Program – Self-Employment achieved its objective by creating a total of 29 new jobs necessary to enhance competitiveness. The supported businesses continued operations beyond the contractual period, and a portion of the funds was invested in the acquisition of machinery, equipment, and tools, as well as raw materials required for business operations, contributions, and accounting, thereby supporting technological development.

The subsidy acts as an “initial stimulus” that encourages others, fostering a positive entrepreneurial environment in the Semberija region.

4.4. COMPARATIVE OVERVIEW OF PERIODS WITH AND WITHOUT SUBSIDIES

To make a conclusive assessment of the success of local economic policy, it is necessary to compare two completely different development concepts for Bijeljina.

1. **Period of Passive Market (2017–2019):** Before the introduction of these systemic incentives, the average number of new registrations was around 233 per year. Without direct support from the city, sub-institutional risk was higher, and the total number of active businesses stagnated at approximately 1,800.
2. **Period of Active Incentives (2022–2024):** With the introduction of subsidies, the average number of new registrations increased to over 380 per year, representing a noticeable growth compared to the period before the implementation of the subsidy measures. (Istinomjer.ba, 2025).

Table 1: Comparative Overview of Three Key Years of Subsidization

Analysis Parameter	Year 2022.	Year 2023.	Year 2024.
Total Number of Entrepreneurs	2183	2264	2351
Individual Subsidy Amount	10.000 KM	5.000 KM	5.000 KM
Number of Direct Beneficiaries	13	27	26
Number of Jobs Created	16	32	29
Share of Taxes in Expenditure	~ 47%	~ 63%	~ 79%
Share of Equipment in Expenditure	~ 40%	~ 24%	~ 14%

Source: Authors' compilation based on available data

A comparative analysis of the three observed cycles reveals a clear change in the structure of spending of approved funds. While 2022 was marked by strategic investment in the technical and technological base (where a significant part of

the BAM 10,000 capital aid was directed to the purchase of machinery and equipment), data for 2023 and 2024 indicate a change in the priorities of the entrepreneurs themselves.

The drop in equipment investment from 40% to only 14% in 2024, along with a simultaneous increase in allocations for taxes and contributions to almost 79% of total funds, clearly defines the subsidy as the primary instrument for maintaining liquidity. This trend shows that under current market conditions, fiscal relief in the first year of operation is actually more important for business survival than the purchase of equipment itself. Reaching a record number of 2,351 active entrepreneurs in 2024 confirms that this type of support serves as a key factor for formalizing businesses and ensuring a secure transition from the status of unemployed to the status of an active economic entity.

Synthesis of Research Findings and Policy Transformation

The conducted analysis clearly indicates that the local economic policy of the City of Bijeljina underwent a significant structural transformation during the observed period. A comparative review of the three subsidy cycles reveals the following economic shifts:

The transition from a high-value individual grant model (BAM 10,000 for 13 beneficiaries in 2022) to a broad-coverage model (BAM 5,000 for 26–27 beneficiaries in 2023 and 2024) has proven superior in the domain of mass business formalization. This resulted in a record number of 2,351 active entrepreneurs, representing a growth of over 60% compared to the passive market period (2017–2019).

The data unequivocally confirm that subsidies have evolved from an investment tool into a fiscal instrument. While the emphasis in 2022 was on capital equipping (40%), in 2024, as much as 79% of funds were directed toward taxes and social security contributions. This trend suggests that, under current market conditions, maintaining liquidity during the first year of operation has become more critical for business survival than the acquisition of fixed assets.

The increase in new registrations—from an average of 233 to over 380 annually—proves that the incentives successfully reduced the institutional risk of entering entrepreneurship. With a business sustainability rate exceeding 90%, the program has established itself as a stable mechanism for the transition of individuals from the unemployment registry to the status of active economic entities.

Although the decline in the share of equipment investment (to a mere 14% in 2024) may pose a challenge to long-term competitiveness, the current model has achieved its primary objective: maximizing employment and stabilizing the local entrepreneurial sector. Future courses of action should be directed toward hybrid models that will, in addition to fiscal stability, re-stimulate the technological modernization of small enterprises.

CONCLUSION

Based on theoretical analysis and empirical research, it can be concluded that local subsidies represent a significant instrument of economic policy aimed at promoting self-employment, entrepreneurship development, and strengthening the local economy. Their importance is reflected not only in direct financial support for entrepreneurs but also in creating a more stable and predictable business environment that encourages the establishment of new business activities. The analysis shows that subsidies have multiple effects on local economic development. They contribute to reducing unemployment, increasing the number of newly registered business entities, strengthening the competitiveness of the local economy, and retaining the population within the local community. It is particularly important that subsidies allow for the reduction of initial business costs, which is crucial for the survival of newly established entrepreneurial ventures during their most vulnerable phase. The empirical analysis of the incentive programs in Bijeljina during the period from 2022 to 2024 confirms that a systematic approach to subsidization can yield concrete and measurable results. An increase in the number of new business registrations, growth in the total number of active entrepreneurs, and a high survival rate of newly established businesses are evident. The data also indicate a gradual transformation in the function of subsidies—from an initial instrument for capital investment to a mechanism of fiscal relief that ensures liquidity and business stability in the early years of operation. A comparative analysis of the periods before and after the introduction of more intensive subsidization measures shows a clear correlation between the availability of incentive funds and increased entrepreneurial activity. This indicates that local subsidies can be an effective economic policy tool if they are well-targeted, transparently implemented, and accompanied by control mechanisms. However, the long-term effectiveness of subsidies depends on several factors, including the stability of the legal and fiscal framework, the quality of beneficiary selection, monitoring of the purposeful use of funds, and continuity of support for entrepreneurship. Only an integrated approach that combines financial, institutional, and advisory

support can ensure sustainable economic development.

One of the major challenges for the sustainability of entrepreneurship occurred in 2025, when the first significant decline in the total number of active entrepreneurs was recorded (from a record 2,351 in 2024 to 2,273 in 2025). This negative trend was a direct consequence of legislative changes at the level of the Republika Srpska, which led to a drastic increase in the minimum contribution base and other tax burdens. Although the city of Bijeljina continued its program, the increased fiscal burdens at the entity level absorbed the entire amount of the allocated subsidies, significantly reducing their actual effect on the growth and development of entrepreneurship. For small entrepreneurs, especially in the service sector, the cost of doing business became unsustainable, leading even to the closure of those ventures that had been supported with city funds. However, to preserve entrepreneurship in the future, it is necessary either to significantly increase individual incentive amounts to compensate for high contributions or to seek systemic relief for beginner entrepreneurs at the republic level. Without the synergy of local support and more favorable tax policy, the long-term sustainability of small businesses will remain seriously at risk. Overall, the self-employment subsidization program represents an important instrument of local economic development, linking individual entrepreneurial initiative with the developmental goals of the local community. The continuation and further improvement of such programs can contribute to strengthening local economic resilience, increasing employment, and creating a more favorable business environment for future generations of entrepreneurs.

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