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Keynote speech

Ukraine's Challenges and Opportunities on its way to Regional Policy.

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Many things will have to be done before Ukraine becomes a fully-fledged member state. But in the deepest, moral sense, Ukraine is already in Europe. In the context of the criminal Russian aggression aiming at the destruction of Ukraine's existence, It is heartbreaking to see on the Ukrainian side enormous determination and political readiness to join the EU. This engagement has been deferred for years. But it is here.

And one of the best news is to see Ukrainians' support for the accession and their understanding of the need for a deep transformation of the country into a democratic, participatory place, with viable working institutions of the state, self-government administration and open, pluralistic, political space. One day Europe will have Ukraine within our democratic fold and Ukraine will add its weight to the new international political order on the European continent.

ACCESSION

Each accession is a transformative experience on many levels, for both the newcomer and the EU. It has always been the light in the tunnel showing the direction toward the future. When it comes to eastern enlargement, each of them was about democracy, modernization, quality of life. For the first time, with Ukraine's accession the role of security and defence capabilities was pushed to the top priority. It also shifted the perception of enlargement beyond the simple line of costs-benefits toward a geostrategic enlargement imperative, with the role of Ukraine in shaping the security architecture of Europe and adding to and inspiring the innovative and competitive potential of European industry.

The fact that Hungary has frozen with its veto the accession process for Ukraine and Moldova, led to an innovative accession methodology keeping the process ongoing at technical level, allowing Ukraine to keep delivering the substance and progressing on accession. On the EU side everything was done to allow the six clusters to be informally open. Ukraine received all legislative, institutional, enforcement and track record related lists of things to do.

Under this front-loading approach the Commission handled Ukraine post screening analysis of gaps, list of required legal acts, institutions and implementation proofs, as well as opening, interim and closing benchmarks. Ukraine is not in the waiting room, the work can go on. And it goes on. Both sides

have prepared their negotiating positions. The substance of readiness is not blocked. Your deputy prime minister in charge of the accession, Taras Kachka, called this methodology a revolutionary step in a very European way. It is a bypass of political paralysis. And the accession moves on technical lane before it will enter the political one. If this mechanism is successful, it could de facto be seen as a new technic for enlargement policy.

It can be seen as well as a gradual integration enabler as it brings a candidate into parts of the system earlier. We still have to figure out how the conversion of technical work into formal political recognition will proceed while respecting the fact that formal accession remains unanimous and political while the technical process remains benchmarks and readiness driven. In any case, the front-loading remains a significant institutional development. Departing from traditional, chapter by chapter system manages Ukrainian readiness for accession, allowing Ukraine to proceed on substance of preparations. Thanks to the front-loading approach the whole informal process of taking the procedure forward is where it would have been formally provided Hungary were not blocking it.

Having said that, it is also crucial to remember that Ukraine has made an incredible effort toward accession to the EU during the Russian aggression. It has taken a clear strategic vision, political will and energy, as well as enormous administrative effort and psychological resources to wage the defence against invaders while at the same time moving on with the

accession process. Ukraine is preparing to become not just a member of the EU but one of the largest members, not only prepared to benefit but also to take their part of the responsibility for the Europe. The accession process also has its component of credibility. It is about building, among member states and citizens, trust toward Ukraine as a future member, but also building Ukraine's responsibility and caring for Europe.

NATIONAL UNITY

Ukraine does not have the luxury of dealing with one of its transformation challenges today, leaving the others for tomorrow or the day after. It must work on everything simultaneously. Some issues, however, require safe skies and must wait for the end of the war. Let me say on the basis of my own experience that Ukraine needs now and will need in the future the government of national unity.

Of course, there will always be politicians and analysts - not to mention hostile social media, trying to influence what people think - blaming, speculating, applying inappropriate pressures, expecting extravagant promises, eroding trust. There are and will be moments of people's anger and exhaustion. There will be unpopular decisions and moments of frustration with negotiations. What is essential is the political commitment to move in the same direction, regardless of the colour of political parties in power.

Good news is that engagement in winning the war and anchoring Ukraine in the EU is strongly visible on the side of Ukrainian civil society. There has been since the beginning of the war an unprecedented role of the Ukraine's civil society, from crowdfunding, to identifying war crimes, to supporting local authorities in dealing with logistics and atrocities of the war, to be vigilant on corruption and democracy.

This engagement has strengthened the capacities of the civil society to remain engaged in the time of peace, protecting democracy, working with political structures, engaging in dealing with peacetime challenges , supporting reconstruction, bringing justice to war criminals, engaging in reforms, helping to reconcile divided communities.

It becomes clear with every day of preparing the accession that citizens are not and will not be passive observers of what administration and politicians do for accession. Citizens should be actively involved in conversation about accession. They cannot see the accession as distant from their own life, but as a part of it, with direct impact on their life and that of future generations. I hope that political forces will be open to see the role of civil society in shaping reforms together and aiming at accession.

You certainly look at costs and benefits of the accession. You have to be aware that most of the costs come in the short term, most benefits come with some delay. Don't let yourselves, or the public, get discouraged by it.

MULTILEVEL GOVERNANCE

It is necessary to maintain a high level of interest among decision-makers regarding not only the legislation, but also the quality of administration and civil service, their quality and apolitical character. This will have huge impact on the quality of Ukrainian membership in the future. It will facilitate in the longer term the implementation of systemic changes. But it is also worth to be aware of the risk that after each election politicians at all levels of governance will feel tempted to bring to the system new people replacing those that already acquired knowledge and good expertise and practise. In the context of regional policy that would be a terrible waste of resources - it takes time to prepare new experts. So, invest in expertise, Ukrainian experts and then keep them in the system. This strengthens the sense of your program.

What I see still as a half open question is a good balance between centralisation and decentralisation in the governance of the country. What seems justified and legitimate in the time of war is criticised by the local and regional authorities highlighting negative consequences of their limited independence.

For Ukraine, the national angle for looking at accession is not enough. The subnational level is of great relevance.

Well-functioning elected authorities below the national level can be a major driver of economic growth, employment, business activity, facilitating development of civil society and promoting the relations with the EU.

When you go on with your great project on strengthening regional policy in Ukraine in line with the values and legal framework of the European cohesion policy, you can see a multitude of links and interdependencies between all the elements of the Ukraine's accession.

CHAPTER 22

Ukraine is seeking new drivers of development, new competitive advantages and despite the war does not want to be an economy of missed opportunities. Regional policy and multilevel governance can be a good path toward avoiding this risk.

Chapter 22 provides a mechanism to support your aspirations, not to put a ceiling on them. If we all do our job, you will see a phenomenal development of regions and cities and expanding activities of the local self-government.

Engaging Ukrainians in politics and policy making at local and regional level will not only build Ukraine's cohesion but it will also strengthen the cohesion of the EU. What you are doing through your program will help to find in Ukraine and across Europe a balance between solidarity, competition, cooperation, and support. Big flows of FDIs will come when the war is gone, but you can already now leverage the potential of Ukrainian regions and local communities.

Given Ukraine's size and the diversity of development potential at the local and regional levels, we must assume that building

territorial cohesion holds immense development potential. SMEs will play a special role in unlocking this potential. Some are highly technologically advanced; they must not be lost, and this will be the responsibility of local authorities.

Local and regional Ukraine has to be prepared to face competition, large companies employing huge cohorts of local people, can be restructured, closed, privatised, adaptive capacities of different town and communities will be different. That is why regions and local communities should spare no effort in creating investment friendly environment. Especially for green field investment, construction of local infrastructure, environmental sensitivity, restoring usability of water, air and soil, ensure sustainability. They will need to expand the potential of renewable energy, access to public services, reduce the potential for shadow economy.

For all that to work, clarity on competences and budget at local level is fundamental and urgent.

Demographics will be felt strongly at local level. Conditions must be created there to encourage people to return. Provide training and skilling for young people. Give them a perspective. Ukraine must avoid what we see here and there in Europe - depopulated towns and regions. In the communities endangered with depopulation encouraging people, business, institutions to build relations with the rest of Ukraine and of Europe canoe a way to go. This is a huge challenge but there are also good practices across Europe.

All that shows that there is space for regional policy. Local and regional authorities, businesses, institutions should look into the future development opportunities and work on their development plans now. Involving people can mobilize them. Using it can mobilize people around accession. It is of the utmost importance not to squander the strong support Ukrainians have for joining the Union. The mobilization of Ukrainian society around the issue of accession, expressed through high levels of support is by no means a given once and for all.

Every region, oblast, hromada may find themselves in different situations. There will be new challenges for local authorities. It cannot be ignored. Cooperation can be an enabler.

I am convinced that varied situation across regions and cities, labor markets, energy sector, small companies, all of them will require a strong regional policy in Ukraine.

There are many unknowns regarding the final version of regional policy. From Europe it can be one big pot of funding, like Ukrainian Facility, with funds for everything. There might be competitive calls and grants. I assume that part of funding from Ukrainian Facility already find its way to local and regional Ukraine. And they are probably aware that to use effectively future financial support the local and regional communities will need to have good plans and projects. It takes time to prepare them.

In short, the reality demonstrates the importance of regional policy in Ukraine.

And there is a clear sense of urgency with regard to needed action. Preparing the ground for its implementation is crucial. And be prepared for combining different sources of investment funding.

I don't know enough about the potential for antagonisms that can emerge making the cooperation between regions, towns, cities and local communities difficult and inefficient. Ukraine cannot afford it. This will need to be replaced by cooperation, experience sharing, and resolving many issues together. The role of business community and civil society can be of high importance in this context.

Corruption, both actual and perceived will impact investments, but it is also an important indicator of democracy. It will be included in every report. There will be a need to generate political and social will for change. Increasing social pressure at the local level might be a fundamental factor.

We might see the inclination toward a focus on infrastructure projects at the expense of social cohesion and territorial inequalities. The intention behind the infrastructure-dominated cohesion policy will most likely be to accelerate reconstruction that would have taken decades if financed exclusively from Ukrainian budgets. Nevertheless, I would like to encourage you to adopt a more balanced approach and ensure a proper place for investments in innovation, competitiveness, special additional funds for the poorest regions, the introduction of the concept of territorial cohesion, and the introduction of urban

policy. It will be important to transfer a portion of funds to be managed directly by provincial governments.

People, freed from war, will not be passive observers; they will need dialogue with local authorities and will increasingly see the connection between their lives and EU membership. Local and regional authorities will be under pressure from these expectations and they must be ready for dialogue.

They will also need to think strategically and be aware of the necessity to build a competitive, technologically advanced, resilient, and well organized 21st-century economy. It can be facilitated if the public investment management system will be transparent, effective, and free from mechanisms that foster corruption.

We have had over decades of cohesion policy different models more centralised and more decentralised, depending on specificities of member states. Ukraine has not only a variety of regional and local committees, with different post war challenges and different visions for the future. There will be rural areas, disadvantaged territories requiring different strategies, focusing on issues like living standards, competitiveness, territorial integration, creating jobs, attracting investors and young people to stay. My guess is also that there will be a need to cope with strong post war trauma among population, social inclusion will be in many cases a top priority, requiring citizens-centred territorial development. Ukraine will be building human, social, economic and political cohesion. I

can imagine that already at this stage depressed territories requiring a special status can be identified. They will require dedicated approach, ensuring access to basic needs, social investment, education and training. Ensuring territorial and social inclusion will be a matter of urgency.

PRE-ACCESSION

I remember my meetings in 2023-2024 with Verkhovna Rada and their emphasis on the speed of approximation of law. Indeed, at that time it was skyrocketing. I hope that the current instability in the chamber will be overcome imminently. Rada's role is crucial in this process.

I also remember assurances that making impact assessment of what is transposed into Ukrainian law is a rule. It helps to understand the impact of new legislative framework on the competitiveness of your businesses in the European single market. Behind every piece of legislation there are businesses and citizens affected by it across the country. Changes in the law will cease to be a remote abstraction dealt with by Rada and will become part of regional and local reality and of the companies operating there. New domestic legislation resulting from the alignment with the European law will be providing the legal framework for local and regional economies, facilitating scaling up of local businesses, promoting innovation, growth and jobs, shaping sustainability commitments.

For many years Ukraine will be going through a deep structural transformation of Ukrainian industry, agriculture, service sectors. The impact assessments of new laws would help to see their impact on this huge structural transformation and are already useful in formulating Ukrainian negotiating positions and justifying demanded transition periods. They can also help businesses, and in particular small and medium sized ones, which, unlike the big ones, cannot afford employing legal experts to help them to adjust. At local and regional level authorities will need to work with SMEs.

When I think of good practices of the 2004 enlargement, worth looking at, what comes to my mind, in the context of your program, is the importance of using efficiently the whole pre-accession time to get well prepared, exploiting all available financing and programs. The very process of getting ready for membership can create benefits and have positive impact on Ukraine. This makes accession a guarantee of the irreversibility of systemic transformation. You will enter as a democratic state, with an institutional market framework, strong institutions, and the rule of law.

Don't wait till the moment of accession, implement now all reforms that don't have to wait for safe sky and benefit from them. Exploit as much as possible the option of gradual or progressive integration, also in the field of Chapter 22. The regional policy creates an opportunity to bring into the accession process younger generation that has no historical

trauma, feels part of a great European community and has a sense of responsibility for it. They are impatient which matters positively.

When it comes to the regional policy, the challenge for Ukraine as a newcomer is to use the time before the accession to prepare, to be ready to run its regional policy, establish the systems for management and implementation, ensure effective monitoring, auditing and effective and efficient absorption. I think that Ukraine can benefit enormously from regional policy. I hope you will use the time ahead to get the feeling that, indeed, you are prepared. Your awareness of the challenge gives you strong motivation. You need local recovery in many areas, you are aware of how vulnerable your different territories are, you know the meaning of resilience and large-scale destruction, and you know the cost of massive internal displacement.

Your big challenge will be stability of administrative environment. I would even say that your success with regional policy and with all the challenges linked to membership will depend to a large extent on the quality of the staff in your institutions. Adequate staffing and expertise will matter always. Start moving in this direction now because institutional readiness remains insufficient for implementation. Civil servants need a lot of training and skilling. They should be well paid and kept 100% apolitical. Temptations for those in the administration already trained and knowing their job to move to private sector, to foreign institutions are and will be high.

The European Commission, your main friend when it comes to regional policy, would like to see Verkhovna Rada going asap back to fully-fledged legislation delivery, to have asap a clarity on national coordination system for regional policy, its responsibilities and capabilities to deliver.

To conclude, if you let me recommend something I would say that those in charge of the regional policy should insist that Chapter 22, Cluster 5, is not seen by Ukrainian authorities as a marginally important chapter, but as one of core chapters that would be testing an EU-compatible territorial governance model. For many reasons, on which I hope you agree with me, Chapter 22 is important for Ukraine. Building post war Ukraine through regional policy will deliver a rule-based, auditable and territorially balanced EU-compatible economic system. Regional policy sits at the intersection of many important imperatives, from the rule of law, accession, post war reconstruction, decentralization, territorial cohesion, to transparency and public finance credibility.

I am also convinced that reconstruction and cohesion spending cannot be two parallel systems. It should be one integrated and synergy-based architecture. Ukrainian facility can protect it. Ukraine will need to prove that they can manage large scale EU investment with strategic discipline and fiduciary reliability. This is what Chapter 22 is about. If implementation of Chapter 22 continues to be closely connected to Ukrainian Facility, which can be a bridging

instrument, it will facilitate coordination, benefitting from synergies, seeing all the links between recovery, reconstruction, modernisation, reforms linked to accession, and allowing to see the challenges like: inaccessible territories, heavily damaged regions, defining constraints, depopulated municipalities, inevitable sequencing of regional interventions.

In the opening benchmarks for Chapter 22 we can see institutional architecture, credible programming framework, regional and local implementation capacities, monitoring and evaluation, financial management and control. Those mechanisms will need to cover also the reconstruction. I also hope that both the government and the Commission will see the deep compatibility of cohesion and reconstruction as mutually reinforcing each other and enabling preparation of a good project pipeline, strengthening, monitoring and auditing of the process.