

POLICY BRIEF



Source: Prakriti Resources Centre.

Policy Pointers

Nepal's disaster recovery system is structurally misaligned. Despite national recognition of Loss and Damage (L&D), emergency relief, long-term adaptation, and recovery operate in silos, leaving communities unable to rebuild in ways that reduce future vulnerability.

Household and community losses are inadequately addressed. Economic losses far exceed compensation, and non-economic losses (psychosocial distress, cultural heritage damage, social cohesion disruption) remain invisible in formal recovery mechanisms.

Municipalities, as frontline implementers, are under-resourced and constrained. Limited finances, technical capacity, and cumbersome administrative process prevent effective operationalization of national L&D policies, disproportionately affecting vulnerable groups.

Effective Loss and Damage governance requires strong municipal capacity and participatory approaches. Without strengthening local institutions, national commitments risk remaining declarative, making it essential to embed Non-Economic Loss and Damage (NELD) in municipal planning process and community-based assessments.

Vulnerable populations including women-headed households, elderly people, children, and marginalized communities are disproportionately affected, facing the greatest barriers to accessing support and participating in recovery and planning processes.

Localizing Loss and Damage: Closing the implementation gap in Nepal's climate governance

Introduction

As climate-induced disasters escalate in frequency and intensity across Nepal, these events are placing growing pressure on governance systems responsible for disaster response and recovery and climate adaptation. Yet these efforts often operate in isolation rather than as part of an integrated system. This disconnect weakens the overall recovery process and limits the ability of affected communities to rebuild their lives and livelihoods in ways that reduce future vulnerability.

The 2021 Melamchi river flood illustrates this challenge. Recovery does not end with immediate relief; rather, it unfolds over a longer trajectory involving livelihood, restoration, rebuilding social systems and addressing economic and non-economic losses. Evidence from the flood shows that affected households experienced substantial economic losses while receiving minimal compensation, leaving significant recovery gap. In addition, non-economic losses such as psychosocial distress, damage to cultural heritage, and disruptions to community cohesion were severe but largely unrecognized within the formal recovery mechanism.

Nepal has begun to acknowledge these challenges within its evolving policy architecture. Frameworks such as Environment Protection Act 2019, National Climate Change Policy 2019, and the National Framework on Climate-Induced Loss and Damage 2021 provide an important foundation for addressing L&D. However, translating these commitments into operational practice remains a challenge due to the absence of operational guidelines, dedicated financing mechanisms, and institutional coordination across governance levels.

Within Nepal's federal system, municipalities are positioned at the frontline of disaster response and recovery. While some municipalities demonstrate proactive leadership, their ability to respond effectively is constrained by limited financial resources, insufficient technical capacity and complex administrative procedures.

As a result, despite growing national recognition of L&D, a persistent implementation gap remains at the municipal level. Bridging this gap is essential for recovery outcomes and ensuring that Nepal's evolving L&D framework delivers equitable, accountable and locally grounded climate governance. Strengthening municipal capacity and institutional coordination will therefore be central to translating national policy commitments into effective recovery and resilience-building on the ground.

The implementation gap

The primary challenge in Nepal's L&D governance lies in the structural misalignment between federal climate ambitions and the municipal implementation capacity. While the National L&D framework is forward-looking, municipalities remain under-resourced and technically constrained, limiting their ability to operationalize policy commitments. Addressing this gap requires shifting focus from national policy design to municipal-level financing, technical expertise and operational systems.

Institutional capacity gaps and their implications

Municipalities often operate with limited disaster funds and lack dedicated L&D budget lines. Compensation is therefore largely confined to housing under the existing disaster policy, while agricultural land loss remains unrecognized. This leaves agriculture dependent households without livelihood security. A survey of 120 households estimated total economic losses of USD 4.9 million, with agricultural land loss alone accounting for USD 3.3 million. On average, each household suffered losses of USD 52,113 but received only around USD 380 in compensation, highlighting the financing shortfall (Parajuli et al., 2024). In addition, complex documentation requirements, procedural hurdles, and weak grievance mechanisms delay compensation and disproportionately affect elderly, women-headed and marginalised households.

Non-economic loss and damage (NELD) are largely absent from local planning frameworks, while national policies lack operational guidelines for integrating NELD into recovery process. Consequently, psychosocial distress and cultural loss and social disruption remain overlooked in recovery system.

These gaps reflect systemic and structural limitations rather than shortcomings of local governments. Addressing financial, technical and administrative capacity dimensions is therefore essential for equitable L&D governance.

The constraints produce three immediate outcomes:

- ◆ Compensation remains partial and uneven, particularly for livelihood losses.
- ◆ Non-economic losses remain outside formal recovery frameworks.

- ◆ Procedural complexity disproportionately affects vulnerable households.

Operationalizing L&D governance therefore requires coordinated leadership across multiple institutions, including the National Disaster Risk Reduction and Management Authority (NDRRMA), the Ministry of Forests and Environment (MoFE), the Ministry of Home Affairs (MoHA), the Ministry of Finance (MoF), provincial governments, and municipalities. While national institutions set policy directions and financing frameworks, effective recovery ultimately depends on municipal implementation capacity.

Why strengthening local institutions (municipalities) matters nationally

The implementation gaps identified above are not municipal shortcomings; they reveal a structural challenge within Nepal's disaster and climate governance architecture. When local governments lack financial, technical, and administrative capacity, National climate commitments risk remaining declarative rather than transformative. Localization is also critical for integrating NELD into policy and planning. Municipalities provide strategic entry points for embedding NELD within annual planning, disaster risk management plans, and social protection frameworks.

As Nepal engages in international climate negotiations, the effectiveness of commitments will increasingly be judged by local implementation. Municipal governments remain frontline actors in disaster response, compensation distribution, land-use planning, and social protection. Without adequate institutional capacity at this level, national frameworks remain fragmented. This challenge is particularly relevant in the context of emerging L&D finance mechanisms. Nepal can mobilize L&D resources through a combination of:

- ◆ Conditional fiscal transfers to municipalities
- ◆ National DRR/L&D budget tagging
- ◆ Disaster risk financing instruments
- ◆ International climate finance

International climate finance increasingly emphasizes accountability, transparency, and absorptive capacity. Strengthening municipal systems will improve recovery outcomes and enhance Nepal's readiness to access and manage future L&D finance flows.



Source: Prakriti Resources Centre.

Impacted communities in Melamchi emphasized that compensation mechanism is narrowly focused on housing, leaving livelihood gaps. Agricultural land loss remains unrecognized, and procedural delays and complexities deter vulnerable households from accessing support.

Municipal officials report severe budget constraints and lack of dedicated NELD budget line, while being expected to deliver rapid recovery. Similar challenges have been documented elsewhere in Nepal including Rajapur municipality in Bardiya, where flood affected farmers experienced delays in compensation and agricultural support (Paudel et al., 2025) reflecting systemic governance challenges rather than isolated local incidents.

In response, participatory approaches are being explored. One example involves the Majhi community, whose agricultural lands were buried following the Melamchi flood.

In collaboration with Melamchi municipality, PRC has supported debris mapping and land demarcation to restore cultivable land. While still ongoing, the initiative aims to explore whether participatory approaches can support more equitable recovery processes and inform future localized recovery models.

Conclusion

The Melamchi river flood highlights a critical gap in Nepal's L&D governance. Progressive national policies are not yet matched by strong municipal implementation systems. Limited financing, weak technical capacity and complex administrative procedures constrain effective recovery.

As climate impacts intensify, Nepal's ability to manage loss and damage will depend on translating national ambitions into local action. Investing in municipal capacity, coordinated institutional leadership, and locally driven recovery systems is therefore both a governance priority and a national resilience imperative.

Recommendations

1. Strengthen municipal financial and technical capacity

The Ministry of Finance should introduce conditional fiscal transfers dedicated to L&D. Compensation frameworks should expand beyond infrastructure damage to include agricultural land loss and livelihood restoration. Municipalities should establish dedicated L&D budget lines within annual planning. Municipal technical capacity on L&D assessment, climate risk planning, and recovery program design should also be strengthened.

2. Develop operational guideline for NELD

The MoFE and NDRRMA should jointly develop operational guidelines for integrating NELD into disaster recovery frameworks. These guidelines should provide municipalities with practical tools for assessment and planning.

3. Reform administrative and procedural mechanisms

NDRRMA should streamline compensation procedures by reducing documentation requirements and establishing time-bound standards. Municipal governments should strengthen grievance mechanisms to ensure Accountability.

4. Institutionalize inclusive and livelihood-focused recovery

Future Compensation frameworks should prioritize vulnerable populations including women, elderly individuals, children, and agriculture-dependent households. Participatory consultations should be institutionalized during loss assessments and recovery planning.

Reference

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