

# POLICY BRIEF



## Policy Pointers

### Shift from asset-based to livelihood-based compensation:

Current DRRM relief systems must recognize agricultural land and livelihood assets as central to recovery, not just housing and infrastructure.

### Address cumulative and repeated disaster losses:

Compensation frameworks should move beyond one-time relief and incorporate multi-year, cumulative loss and damage assessments for hazard-prone communities.

### Close the financing gap for recovery:

Establish dedicated, multi-year budget lines and expand use of national disaster funds, while actively mobilizing international climate finance, including the FRLD.

### Simplify recovery procedures:

Reduce administrative barriers and empower local governments to directly plan, verify, and deliver recovery support to affected households.

### Integrate non-economic losses into recovery planning:

Psychosocial and cultural impacts must be supported through clear operational mechanisms, dedicated funding, and practical implementation at local levels.

## When relief is not recovery: The overlooked economic losses in Melamchi Valley

### Introduction

In the wake of the Melamchi-Helambu disaster, recovery efforts must pivot from temporary food aid toward the systemic restoration of the land-base. Since over 90% of the local population depends on agriculture for their livelihood (NSO, 2021), land reclamation and soil revitalization represent the plausible pathways to long-term economic security. The Melamchi valley in Sindhupalchowk district of Nepal, is highly exposed to recurrent climate and natural hazard events, including flash floods, landslides, and glacial melt. While these disasters generate substantial economic losses ranging from damaged homes and infrastructure to destroyed agricultural land and disrupted livelihoods, current disaster response frameworks treat these losses as episodic, rather than cumulative, long-term challenges.

Nepal's compensation and relief mechanism structured under the Disaster Risk Reduction and Management (DRRM) Act 2017 and Disaster Risk Reduction and Management (DRRM) Rule 2018 primarily focuses on rapid relief for housing damage, fatalities and immediate household needs. In practice, this approach assumes that once grants are disbursed for affected households, recovery is often considered complete despite ongoing livelihood loss and economic insecurity. While the National Framework on Climate Change Induced Loss and Damage (2021) recognizes the importance of addressing agricultural land and livelihood impacts, the existing DRRM Act (2017) and its associated relief standards fail to bridge the 'protection gap.'

This gap persists despite broader national policy commitments under Nepal's climate change and development planning framework including National Climate change policy (2019), National Adaptation Plan (NAP 2021–2050), Nationally Determined Contributions (NDC 3.0), and the 16th Five-Year Plan. These instruments collectively emphasise climate-resilient development, livelihood protection, and the integration of climate risks into sectoral planning. However, in practice remains focused on immediate disaster relief rather than long-term livelihood recovery and resilience building.

In practice, statutory compensation procedures remain anchored in ad-hoc relief that recovers only a small fraction of actual losses. In practice, statutory compensation procedures remain anchored in ad-hoc relief that recovers only a small fraction of actual losses. Evidence from the Melamchi and Helambu case shows that while the average economic loss per household reached about USD 52,113, households received only around USD 380 on average in financial support, leaving a substantial recovery gap. Economic losses also extend beyond immediate disaster support, particularly when critical livelihood assets such as agricultural land, crops, and livestock remain uncompensated. 120 HHs survey findings indicate that 33% of respondents reported agricultural land loss, while 30% reported loss of crops and livestock, highlighting the impacts on livelihood assets. Around 53% of surveyed households took on additional debt or sold assets to restore their livelihoods, leaving communities trapped in prolonged cycles of vulnerability and livelihood disruption. This policy brief argues that compensation alone is insufficient for recovery and highlights the need for policy mechanisms that recognize long-term economic loss, support livelihoods, and promote resilience.

This brief draws on a case study of the 2021 Melamchi river flood, combining secondary data from household surveys, community and municipal-level consultations, focus group discussions, and municipal financial and administrative records. Through the lens of the Advocacy Coalition Framework (ACF), the analysis examines post-disaster response, compensation mechanisms, and the effectiveness of addressing economic and non-economic loss, livelihood disruption, and household overall vulnerability over time.

## The “one-time compensation”

The compensation in Melamchi largely reflects event-based relief mechanism, assuming a single cash transfer can close the economic gap without much reflection on research and an adequate relief mechanism. The mechanism is relief-centric as the policy beliefs revolve around the same narrative. First, it relates to disasters as episodic events. Second, recovery is assumed to be completed once houses are rebuilt. Third, compensation to be physical assets i.e., road, houses and land, is not considered a physical asset under this. Herein, the foci are on the budget and its visible outputs like roads, riverbank protection and enforce strict bureaucratic verification to control funds.

However, on the ground, losses were cumulative and long-term as households lost productive land, crops, and livestock repeatedly, not only during the 2021 flood but also through recurrent monsoon flooding. Furthermore, the survey data show that more than 50 percent of households reported long-term agricultural-related losses, while sedimentation left fields unusable. Debt accumulation and psychosocial impacts exacerbated vulnerability. As one affected resident explained, “The house I worked so hard to build still had an unpaid loan, and now I am in debt for this new house too.” These ongoing economic impacts highlight that one-time compensation cannot capture

repeated disruptions, restore income loss, or support long-term recovery in hazard-prone regions.

## The livelihood gap

While the compensation frameworks in Melamchi and Helambu prioritized housing reconstruction and immediate relief, in line with national disaster response procedures, the households received limited grants for damaged homes (NPR 10,000-15,000) or livestock (around NPR 10,000), the most critical asset for livelihood in Melamchi and Helambu particularly agricultural land, was excluded from compensation. These gaps disproportionately affect women farmers, landless households, and marginalized communities, who rely heavily on small-scale agriculture for survival.

Local government officials also confirmed that there is no provision for compensating agricultural land loss within existing procedures. As one official noted, although communities frequently raise concerns about agricultural land loss, “there is no provision for compensation for agricultural land loss in our local-level procedures, and I don’t think it’s included in national procedures either.”

This gap highlights a deeper structural limitation in Nepal’s disaster recovery system: when key livelihood assets are not formally recognized as “loss and damage,” recovery frameworks remain focused on physical reconstruction while long-term livelihood restoration is left unaddressed. As a result, many households continue to experience prolonged economic vulnerability even after receiving initial relief support.

## The procedural burden

Procedural and administrative requirements prevented many households from accessing full support for housing even when compensation was available. Housing reconstruction compensation grant was provided based on installment. In Melamchi municipality, 272 households have received the first installment, but have dropped sharply thereafter with only around 50% accessing the second instalment, and just 22% completed the third installment. Households faced multiple barriers, including mandatory demolition of damaged houses, restrictions on relocation sites, insufficient amounts for most families, and repeated verification by multiple agencies. For families already dealing with displacement, income loss, and debt, these procedures have led many to abandon the process after first installment. In addition to this, compensation remains narrowly focused on housing while losses on agricultural land, crops, and livelihoods remain uncompensated. These ad-hoc relief mechanisms fall significantly short of covering even half of the lost assets in the climate induced disasters, elucidating administrative box-ticking over genuine economic recovery that prevents the disaster victims from reclaiming their livelihoods. This forced households to navigate complex systems for partial support while their primary income sources were left unaddressed.

## Melamchi households receiving financial support on installment basis

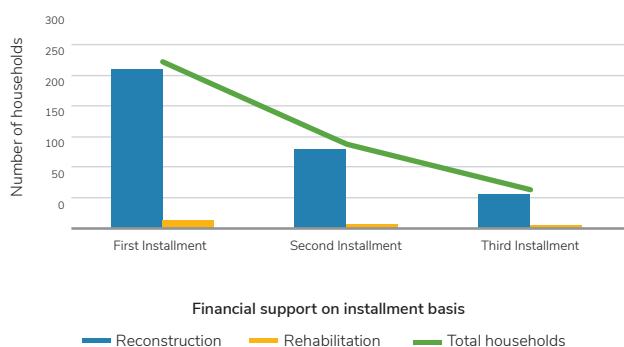


Figure 1: Trends of households receiving financial support

As a result, compensation shifted from entitlement to an incomplete process with administrative complexity, prolonged vulnerability and widened the gap between losses and actual support received showing the reality of the ground.

## Conclusion

The 2021 Melamchi river flood exposes persistent weaknesses in Nepal's disaster response and recovery framework. Current compensation mechanism is event-based, asset-focused, and administratively burdensome leaving economic losses, particularly agricultural land unaddressed. Many affected households continue to face livelihood disruption, debt accumulation and long-term vulnerability despite receiving limited relief support.

The Melamchi experience reflects broader challenges in Nepal's disaster risk reduction system, where recovery policies prioritize short-term infrastructure repair rather than sustainable livelihood restoration. Without reform, emerging mechanisms such as the Fund for Responding to Loss and Damage (FRLD) risk replicating these same shortcomings.

Nepal now faces a critical opportunity to rethink disaster recovery. By recognizing cumulative economic losses, simplifying administrative processes, and prioritizing livelihood-centered recovery, the country can move beyond short-term relief toward long-term resilience. Without such reforms, disaster relief continue to reinforce cycles of vulnerability rather than support meaningful recovery. The Melamchi evidence presents a critical opportunity for Nepal to shift from relief-centered approach to ward resilient, livelihood-centered recovery.

## Priority policy actions

- 1. Ministry of Home Affairs (MoHA):** Revise DRRM relief standards to include agricultural land, livelihood assets, and long-term recovery, shifting beyond event-based, asset-focused compensation.
- 2. NDRRMA:** Develop standardized loss and damage assessment guidelines that capture both economic and non-economic impacts, including livelihoods, psychosocial stress, and cultural losses.
- 3. Ministry of Finance (MoF):** Establish dedicated, multi-year budget lines for long-term recovery and loss and damage financing beyond immediate relief and reconstruction.
- 4. Provincial and Local Governments:** Create livelihood recovery funds and lead inclusive, community-based assessments to support income restoration and agricultural recovery.

All relevant institutions: Mainstream non-economic loss and damage into recovery planning, including psychosocial and cultural recovery as core components.

## Recommendations

### Align compensation with cumulative economic losses

- ◆ Reform the DRRM Act 2017 and DRRM Rule 2019 to recognize repeated and long-term losses especially for hazard-prone households.
- ◆ Incorporate multi-hazard and multi-year loss assessments for repeated disasters, long-term livelihood disruption and land degradation rather than limiting compensation for immediate relief.

### Restore livelihoods and not just physical assets

- ◆ Expand compensation frameworks to include critical livelihood assets particularly agricultural land.
- ◆ Pair financial support with actionable livelihood restoration strategies, including irrigation repair, market reconstruction and access and income diversification. Compensation should be tied directly to measurable recovery outcomes.

### Simplify procedures and reduce administrative barriers

- ◆ Empower municipalities and community-based organizations to actively plan, monitor and disburse support, rather than limiting their role to bureaucratic verification.
- ◆ Ensure compensation mechanisms are flexible, context-sensitive and inclusive, preventing households from abandoning support due to bureaucratic hurdles.

## Implementation Pathway

To operationalize these recommendations, a phased approach can be adopted:

- ◆ Revise disaster relief standards under the DRRM Act (2017) and DRRM Rule (2019) to include agricultural land as livelihood losses.
- ◆ Develop cumulative loss assessment and tracking methodologies to capture repeated disasters and long-term livelihood impacts.
- ◆ Pilot livelihood-centered recovery mechanisms in Melamchi and Helambu, testing compensation for agricultural land and livelihood restoration programs.
- ◆ Scale up nationally by integrating lessons from pilot municipalities into national DRRM guidelines and disaster financing mechanisms.

## Reference

National Statistics Office (2021) National Population Census, NSO.

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This policy brief was funded by International Development Research Centre (IDRC). The views expressed in this brief are those of the authors and do not necessarily reflect the views of the International Development Research Centre (IDRC) or its partners.



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