# CHAPTER I
# INTRODUCTION

## 1.1. Background

The Sustainable Development Goals (SDGs) are a global action plan agreed by 193 United Nations member states at the UN General Assembly in September 2015. The SDGs include 17 goals and 169 targets designed to identify areas that require urgent action to ensure continued progress in human development (United Nations, 2020). One of the main priorities in SDGs is youth employment. The focus on youth is reflected in goal 8 of the SDGs, which seeks to foster sustained economic growth and provide decent employment for all. Within this goal, there are two targets related to youth, namely enhancement of employment opportunities for the youths and decreasing the youths who are not in employment, education, or training (Elder, 2015).

According to Goede et al. (2000), young people undergo various significant transitions in their lives, such as moving from secondary education to higher education, entering the workforce, or transitioning from living with parents to establishing their own households. These transitions often create challenges for youth, especially in the form of unemployment. As emphasized by Alemu (2016), youth unemployment remains a critical issue in many countries, as youth unemployment rates consistently surpass overall unemployment rates, highlighting a persistent gap in their access to the labor market.

The issue of unemployment affects young people more significantly than other age groups (Dagume & Gyekye, 2016). In fact, youth unemployment rates are often two to three times higher than those of older age groups, underscoring their heightened vulnerability to economic fluctuations (Marelli & Vakulenko, 2016). Furthermore, Hoxhaj (2017) emphasizes that a one percent increase in overall unemployment can lead to a two percent rise in youth unemployment rates. In addition, Yeung and Yang (2020) state that young individuals are particularly susceptible to economic downturns and changes in the labor market due to their generally limited qualifications and lack of work experience.

**Table 1.1 Unemployment Rate by Age Group in Indonesia**

| Age Group | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|
| 15-19 | 26.93 | 26.12 | 24.34 | 23.91 | 29.08 | 25.77 |
| 20-24 | 16.79 | 15.64 | 18.71 | 17.73 | 17.02 | 16.85 |
| 25-29 | 6.97 | 7.19 | 9.77 | 9.26 | 7.13 | 7.48 |
| 30-34 | 3.44 | 3.52 | 5.75 | 5.43 | 3.7 | 3.55 |
| 35-39 | 2.48 | 2.25 | 4.32 | 4.02 | 2.65 | 2.54 |
| 40-44 | 1.8 | 2.06 | 3.92 | 3.42 | 2.43 | 1.82 |
| 45-49 | 1.58 | 1.81 | 3.54 | 3.3 | 2.33 | 1.8 |
| 50-54 | 1.39 | 1.65 | 3.61 | 2.18 | 2.38 | 1.79 |
| 55-59 | 1.25 | 1.3 | 3.21 | 1.98 | 2.37 | 1.52 |
| 60+ | 0.61 | 0.68 | 1.7 | 2.73 | 2.85 | 1.28 |
| Overall | 5.3 | 5.23 | 7.07 | 6.49 | 5.86 | 5.32 |

Source: Badan Pusat Statistik, 2024

Based on Table 1.1, the overall open unemployment rate in Indonesia fluctuated over the 2018-2023 period, with a sharp increase in 2020, reaching 7.07 percent. This rise was primarily driven by the economic downturn caused by the COVID-19 pandemic, which led to widespread job losses and hiring constraints. Although the unemployment rate gradually declined in the following years, reaching 5.32 percent in 2023, youth unemployment exhibited a different pattern of fluctuation. The unemployment rate for individuals aged 15-19 declined from 26.93 percent in 2018 to 23.91 percent in 2021 but surged to 29.08 percent in 2022 before falling again to 25.77 percent in 2023. Meanwhile, the 20-24 age group experienced a more stable downward trend, decreasing from 16.79 percent in 2018 to 15.64 percent in 2019, rising to 18.71 percent in 2020 due to the pandemic, and then gradually declining to 16.85 percent in 2023. Despite these differences, youth unemployment consistently remained much higher than the overall unemployment rate, highlighting the ongoing difficulties young individuals face in entering the labor market.

The high unemployment rate among young people is believed to reflect the difficult transition between school and work, and the inefficiency of the labour

market (ILO, 2021). According to Chen (2011), young people should ideally transition smoothly from education to the labor market without spending excessive time seeking employment or becoming economically inactive. In addition, Eurofound (2012) emphasized the fact that not all forms of labor market inactivity have negative effects, especially when individuals are in the process of education or training. These activities are considered as investments because they can increase the individual's capacity to obtain employment in the future. Therefore, to examine the inactivity of youth in the labor market and education, the International Labor Organization coined the term NEET which refers to women and men aged 15 to 24 who are not in employment, education or training (Wickremeratne & Dunusinghe, 2018).

The NEET indicator provides valuable insights into the barriers that young people face during the transition from education to employment. Unlike the youth unemployment rate, which only includes individuals actively participating in the labor force, the NEET indicator includes both young people who are and are not participating in the labor force. As such, the NEET indicator offers a more comprehensive perspective on youth inactivity, including those who are not engaged in the labor market due to pursuing education, participating in training, or other reasons. When such inactivity arises from factors other than education or training, it can become a serious concern, potentially increasing the risk of social exclusion and hindering the development of skills needed to compete in the job market. Prolonged inactivity may further exacerbate future economic challenges, such as rising poverty, social inequality, and difficulties in securing decent employment (Eurofound, 2012).

The emergence of NEET youth is a big challenge for countries around the world, especially for countries that are experiencing a demographic bonus, such as Indonesia. According to Maryati (2015), Indonesia is predicted to enjoy a demographic bonus in the period from 2020 to 2030. The demographic bonus refers to a situation where the number of people of productive age exceeds the number of non-productive people. This condition is often interpreted as a great economic opportunity, because the increasing number of productive age population can increase national savings, which in turn can encourage investment and economic

growth. However, a high number of people of productive age will not have a positive impact on economic growth if they do not engage in productive activities, such as working or attending education. According to Sari et al. (2022), The demographic bonus must be utilized optimally considering Indonesia will enter a phase of population aging so that the young population must be prepared early. The inability to utilize the potential of the demographic bonus can bring enormous losses to a country (Sutikno, 2020).
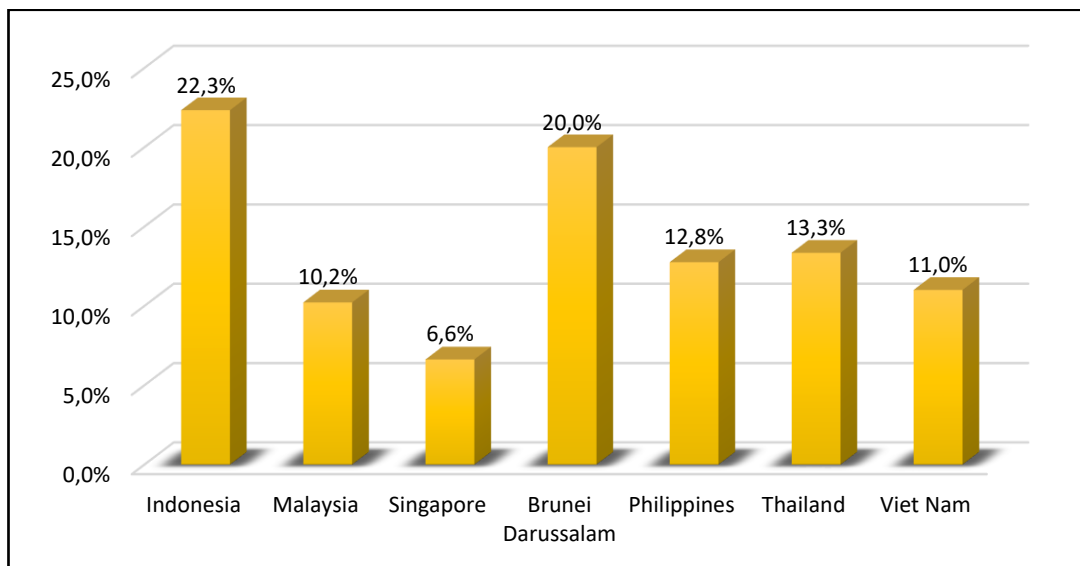


**Figure 1.1 Percentage of NEET Youth in Southeast Asia 2022**
Source: World Bank, 2024

Based on Figure 1.1, in 2022, Indonesia ranked first in Southeast Asia with the highest percentage of NEET rate, at 22.3 percent. This figure indicates that almost a quarter of the youth group aged 15 to 24 are not engaged in employment, education or training. Below Indonesia, Brunei also recorded a high NEET rate of 20.0 percent, while the NEET rates in Singapore and Malaysia are 6.6 percent and 10.2 percent, respectively, which are much lower compared to Indonesia. This comparison confirms that Indonesia faces serious challenges in addressing the issue of youth who are not engaged in productive activities. In addition, the high NEET rate in Indonesia indicates that the potential of its demographic bonus has not been optimally utilized, where many young people who fall into the NEET category have not been well absorbed in the labor market, so their potential to contribute to development cannot be maximized.

The high number of NEET youth in Indonesia also poses serious economic and social challenges to the development of the country. This group not only has a negative effect on the individual themselves, but also on their families and society as a whole. According to Kovrova et al. (2013), NEET youth are the productive age population that is not optimally utilized, thus dragging down the economic growth. Furthermore, they have a high risk of falling into poverty and social exclusion because they do not have access to skills and competencies that can increase their competitiveness (Quintano et al., 2018). Being a NEET has consequences on a person's physical and mental health, and can even lead them to engage in criminal activities (Maguire & Rennison, 2005). The presence of NEET youth also affects the quality of human capital, as those who are not engaged in education or employment are at risk of getting low-quality jobs in the future (Eurofound, 2012). Therefore, it is imperative for the government to immediately address this issue, so that NEET youth do not become a permanently marginalized group in the labor market and can contribute meaningfully to the nation's future.

The emergence of NEET cannot be separated from the determining factors that make a person likely to become NEET. Several previous studies have analyzed the factors affecting NEET status in different countries. Susanli (2016) highlighted that in Turkey, the region of residence significantly impacts the likelihood of being NEET, with individuals living in rural areas having a higher probability than those in urban areas. Furthermore, Erdoğan et al. (2017) found that in Turkey, women are four times more likely to be NEET compared to men. Additionally, Hardiani et al. (2023) reported that young individuals who are married are 11.657 times more likely to be NEET than their unmarried counterparts.

The NEET youth also has been linked to human capital factors, including education and health. Elfindri et al. (2015) state that the inability to provide better, affordable, and accessible education and healthcare services can result in youth becoming unproductive labor for the economy. Additionally, the level of education can influence productivity levels (Kuncoro, 2010). One of the challenges related to education is school dropout. According to the OECD (2002), school dropout refers to the phenomenon where individuals leave a specific level of education without achieving the appropriate qualifications.

**Table 1.2 Percentage of School Dropouts in Indonesia 2021-2023**

| Gender | Elementary School | | | Junior High School | | | Senior High School | | |
|--------|------|------|------|------|------|------|-------|-------|-------|
| | 2021 | 2022 | 2023 | 2021 | 2022 | 2023 | 2021 | 2022 | 2023 |
| Male | 0.75 | 0.8 | 0.68 | 7.56 | 7.77 | 7.97 | 23.14 | 24.56 | 23.78 |
| Female | 0.55 | 0.62 | 0.66 | 5.96 | 6.06 | 5.86 | 19.76 | 20.35 | 19.34 |
| Total | 0.65 | 0.71 | 0.67 | 6.77 | 6.94 | 6.93 | 21.47 | 22.52 | 21.61 |

Source: Badan Pusat Statistik, 2024

Table 1.2 presents the dropout rates in Indonesia from 2021 to 2023, categorized by educational level and gender. At the elementary school level, dropout rates remained relatively low but showed minor fluctuations over the years. Specifically, male dropout rates decreased slightly from 0.75% in 2021 to 0.68% in 2023, while female rates saw a small increase from 0.55% in 2021 to 0.66% in 2023. In junior high school, male dropout rates showed a consistent increase, rising from 7.56% in 2021 to 7.97% in 2023, whereas female rates slightly decreased from 5.96% to 5.86%. The senior high school level displays the highest dropout rates, with males at 23.78% and females at 19.34% in 2023. This implies that youth between the ages of 15 and 18 are notably at risk of discontinuing their education. In addition, the high school dropout crisis, especially among senior high school students, intensifies the worrying trend of NEET youth. Yang (2020) and Herdiana et al. (2024) have documented that incomplete education, combined with the lack of training experience, significantly increases a young person's vulnerability to becoming NEET.

Apart from education, health is another important factor that can further exacerbate a person's risk of becoming NEET. Young people suffering from health issues, whether physical or mental, are less likely to pursue educational or work opportunities where they could engage in meaningful endeavors. According to Eurofound (2012), individuals with existing health problems are 40% more likely to be NEET than those in good health. Aside from health factors, family composition also contributes to NEET status. Ranzani and Rosati (2013) found that larger families are more likely to include at least one NEET individual. As explained by Libois and Somville (2018), per capita consumption tends to worsen in

households with a higher number of members, thereby aggravating the family's financial situation.

Research on the causes and consequences of youth becoming NEET (not in education, employment, or training) remains relatively limited (Yates & Payne, 2006). Fabrizi and Rocca (2024) also highlight one of the primary challenges in understanding this issue, namely the absence of comprehensive data. In addition, findings vary across different regions. For example, a study conducted by Susanli (2016) found that NEET individuals in Turkey were predominantly from rural areas, whereas Kovrova (2013) reported the opposite in Brazil, where most NEET youth were urban dwellers. Moreover, several studies have explored the role of gender. Erdoğan et al. (2017) identified gender as an important factor, while Anggraini et al. (2020) found that gender was not a significant determinant of NEET status. With regard to education, Eurofound (2012) argued that youth with lower levels of educational attainment were less likely to become NEET. In contrast, Hardiani et al. (2023) and Anggraini et al. (2020) found that NEET youth tend to be highly educated.

Understanding the characteristics and factors that cause young people to become NEET is crucial to understanding the reasons why they are not engaged in the labor market and formulating appropriate interventions on factors that have significant influence. Until 2024, there were still few studies that specifically examined the characteristics and factors causing NEET status among youth in Indonesia. Therefore, the researcher aims to address this gap by conducting a study to identify these characteristics and factors. This research will be titled "Analysis of Factors Influencing NEET Youth in Indonesia".

## 1.2. Problem Statements

Based on the background and problem identification that has been described, the research problem in this research are:

1. Does the location of residence influence the likelihood of youth becoming NEET in Indonesia?

2. Does gender influence the likelihood of youth becoming NEET in Indonesia?

3. Does marital status influence the likelihood of youth becoming NEET in Indonesia?

4. Does education level influence the likelihood of youth becoming NEET in Indonesia?

5. Does training experience influence the likelihood of youth becoming NEET in Indonesia?

6. Does health condition influence the likelihood of youth becoming NEET in Indonesia?

7. Does household size influence the likelihood of youth becoming NEET in Indonesia?

## 1.3. General Research Objectives

Based on the problem statements that has been described, the objectives of this research are:

1. To analyze the effect of location of residence on the likelihood of youth becoming NEET in Indonesia.

2. To analyze the effect of gender on the likelihood of youth becoming NEET in Indonesia.

3. To analyze the effect of marital status on the likelihood of youth becoming NEET in Indonesia.

4. To analyze the effect of education level on the likelihood of youth becoming NEET in Indonesia.

5. To analyze the effect of training experience on the likelihood of youth becoming NEET in Indonesia.

6. To analyze the effect of health conditions on the likelihood of youth becoming NEET in Indonesia.

7. To analyze the effect of household size on the likelihood of youth becoming NEET in Indonesia.

## 1.4. Research Benefits

1. This research is expected to be used as reference material for future researchers who are interested in conducting similar research where NEET is the main object to be studied.
2. The results of this study are expected to be a solution or idea for the government to make decisions and policies related to NEET youth in Indonesia.

## 1.5 Writing System

The systematic writing based on research consists of several parts, each part will explain various topics of problems based on the title of each part. The following are the systematic writing structures:

### CHAPTER I INTRODUCTION

The first chapter is composed of five sub chapters, which include the background, problem statements, research objectives, research benefits, and systematic writing.

### CHAPTER II LITERATURE REVIEW

The second chapter presents relevant theories and the relationship between the variables studied. In addition, this chapter is also complemented by previous research that is related to the topic and research hypothesis.

### CHAPTER III RESEARCH METHODOLOGY

The third chapter will discuss the methods used to complete the research, containing specific research objectives, research approach, data collection techniques, data analysis technique, and operational definitions of variables.

### CHAPTER IV RESEARCH RESULTS AND DISCUSSION

The fourth chapter describes the characteristics of NEET youth in Indonesia and presents the results of logistic regression analysis.

### CHAPTER V CONCLUSION AND RECOMMENDATIONS

The fifth chapter contains conclusions obtained from the research and provides policy recommendations based on the research findings.