Brain drain isn't binary

All African startup ecosystems face “brain drain”, the exile of its most promising talent. Some leave after high school, continuing their studies abroad. Some leave during their professional life, seeking better work opportunities. Some leave in search of a superior quality of living. Often, it’s a mix of the three.

Temps de lecture : minute

4 September 2024

This article was originally published by *The Realistic Optimist*

The simplistic view of brain drain is binary. Talent is here at home and then poof, it disappears. That feels like a net loss. The reality is closer to what some have coined “*brain circulation*”. Local talent does leave but accumulates networks, knowledge and capital while abroad. If that talent retains a connection to its home country, which it often does, some of those resources circle back. Remittances (money sent home by migrant workers) is a good example. In 2022, remittances represented around *8%* of Morocco’s GDP.

The same logic applies to the startup scene. Morocco does indeed “lose” many of its best and brightest to foreign universities and companies. Moroccan students are known for *excelling* in elite French engineering schools. But let’s be realistic: are we going to force them to stay in Morocco? No. So how do we make the best out of this situation?

Let’s look at our Tunisian neighbours. Last year, the ecosystem made a splash when *Instadeep*, founded in Tunisia by two Tunisians, sold to German corporate *BioNTech* for *$682M*. Some viewed the success as bittersweet: Instadeep had relocated its headquarters to London a few years back. Was this a case of Tunisia having “lost” its talent?

Obviously not. The Instadeep exit filled the pockets of African investors who got in early. The company’s early Tunisian employees likely got a pay-out, turning them into potential angel investors. Instadeep maintained a technical team in Tunis and its exit vindicates that team’s quality. Instadeep’s founders stayed implicated back home: they have organised AI events and *hackathons* on the continent, upskilling local talent.

Instadeep’s exit was a definitive net positive for Tunisia’s startup scene, despite the company’s relocation. Its exit would probably not have been possible without the relocation in the first place. London is a more vibrant AI hub than Tunis is. The move made sense.

The Instadeep story shows that Moroccans abroad should be a key component of the Moroccan startup ecosystem’s strategy. Diasporas cannot be obliged to engage with the Moroccan ecosystem if they don’t want to. They have to be incentivised to do so. That’s where work has to be done.

Straight to the source

I run one of Morocco’s “original” VCs. A few years ago, we expanded our investing mandate to include startups founded by Moroccans abroad. That may seem counter-intuitive: how is a Moroccan founder building a startup in and for a foreign market related to Morocco? What’s more, why would that founder raise from us? What good are we doing to the ecosystem if we invest in founders abroad?

It boils down to pragmatism and comparative advantage.

Pragmatism because we are a VC fund and we are looking to deliver returns. By widening our deal-flow scope, we get to include founders operating in “richer” markets where potential returns are larger. Since us and the founder(s) are Moroccan, cultural affinity eases collaboration. We also gain exposure to new geographies, investing in the UAE, Canada, Senegal and even France.

Comparative advantage for two reasons. First, because we connect our Moroccan founders abroad to tech talent in Morocco. This is a win-win situation: founders get access to affordable talent that they implicitly connect with, and the Moroccan ecosystem exposes its talent to startups abroad. Second, because Moroccan founders who want to expand to Africa now have a relevant partner on the ground.

Objective improvement

Another lever the ecosystem can pull is attracting diaspora founders to found their startups in Morocco. This is happening more and more. Some diasporas are tired of feeling “foreign” in their host country, a situation aggravated by Europe’s recent, sharp right-wing turn (many Moroccan diasporas live in Europe). Others are tempted by the Moroccan ecosystem’s progress. The ecosystem is far from perfect but it is objectively more advanced than a decade ago. Once again, what pushes diaspora founders to come back is often a mix of both.

Despite persistent, thorny challenges, the ecosystem is moving in the right direction. Launched in 2017 with funding from the World Bank, the *Innov’Invest* program seeded some of the ecosystem’s first VCs and founders. Prosaically, Innov’Invest means there’s more money available for returning diaspora founders than ever before. The recently launched *Mohammed VI Fund* will pump even more funding into the ecosystem.

Effectively tapping Moroccan diaspora founders implies continuously improving our ecosystem. Not doing so will make the lives of returning founders excessively hard, discouraging potential returnees. A vicious circle. The ecosystem faces two main obstacles today: its market and the lack of later-stage funding.

Neighbourhood tensions

The Moroccan market is small and overregulated.

Compared to Africa's "Big Four" (Egypt, Nigeria, Kenya and South Africa), Morocco's domestic market houses a relatively small population of *37 million*. This challenge could've been solved if the North African region, which englobes over *200 million* people with shared cultural traits, was integrated.

Unfortunately, that is not the case. Political tensions between its constituents, notably Morocco and Algeria, have soured North Africa's trade relations. So the domestic market remains *small*. This places Morocco at a disadvantage compared to Kenya and South Africa for example, who enjoy better commercial links with their neighbours (through the *EAC* and *SACU* respectively) and thus a larger total addressable market (TAM).

The Moroccan market is also over regulated. In certain sectors such as the financial one, over regulation may stem from over prudence. This is a respectable approach but isn't conducive to much-needed financial innovations. Something has to give.

In other sectors, over regulation may be linked to a tacit protection of powerful incumbents. Once again, that isn't conducive to innovation. This is a shame, knowing many of these sectors could use the fresh efficiency granted by tech startups.

The Moroccan ecosystem also lacks later-stage funding. This is a *catch-22 situation*.

The pertinence of investing in Moroccan startups hasn't taken off because there hasn't been any tangible exits. For that, blame the ecosystem's youth and the lack of potential acquirers. Moroccan corporates are generally not bullish on M&A, preferring to build products in-house. Scarcity of buyers leads to low valuations, which leads to small exits (if any). Morocco hasn't had its Instadeep moment yet.

To attain higher valuations and larger exits, Moroccan startups need to scale. But to scale, they need to raise later-stage funding. And no one wants to give them later-stage funding because none of them have truly scaled yet. Catch-22.

This is why public money is so important, especially to seed VCs that will (hopefully) finance the ecosystem's first exits. It's what the US did with *SBIC* or what France has recently done with *Bpi*.

Conclusion

A zero-sum game posits that if someone gains an advantage, another suffers an equivalent disadvantage. In cruder terms: the size of the pie is set so anyone taking more means someone else gets less.

This is regularly the way with which the diaspora discourse is approached. Morocco has a set talent pool and the ecosystem loses when some of it leaves. Actually, the size of the pie isn't set. Any Moroccan gaining experience abroad grows that pie. The size of the pie is unlimited.

The Moroccan diaspora is one of the ecosystem's greatest resources but it is also the hardest one to obtain. Moroccan talent abroad doesn't have any "reason" to engage with the Moroccan ecosystem, especially if their host country has more capital, finer talent and better laws.

It is up to the ecosystem to make that engagement attractive. It can take various forms. Some diasporas might mentor local founders, others might hire local tech teams and others might come back all together. There should be something for everyone.

There will always be a delta between the attractiveness of the US, France, the UK, the UAE and that of Morocco (for the foreseeable future at least). Moroccan ecosystem actors should reduce that delta as much as they can, and leverage the diaspora’s attachment to the homeland to fill the remaining gap.

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The Realistic Optimist is a weekly, paid publication making sense of the globalised startup scene. Read the publication's manifesto here.

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