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ORIGINAL ARTICLE

The role of political foundations in the bank indebtedness of political parties: the case of Spain

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ABSTRACT

The bank indebtedness of political parties and the economic connections they maintain with their foundations can influence the quality of democratic processes and the independence of public representatives. In this paper, we argue that both of these funding elements can also be related. Based on an analysis of the economic information on Spanish political parties and their foundations between 2007 and 2019, we prove that business and individual donations that political foundations receive, as well as contributions made to them by political parties, influence the level of bank indebtedness of the parties they are linked to, as well as the cost of such indebtedness. Our results imply that as well as having direct consequences for the economy and public policy, the economic instrumentalization of the foundations by political parties influences the financial structure of political parties and conditions their position before credit institutions as well as their competitive capacity.

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1. Introduction

Political party funding occupies a crucial role in the functioning of democracy since it affects the configuration of the party system and the transparency and integrity of political activity (Norris & Abel van Es, 2016). There is an extensive body of research that analyses the relation between political funding (and its regulation) as well as issues such as the equal opportunities of electoral competitors or political corruption (e.g. Casal Bértoa et al., 2014; Hummel et al., 2021; Rashkova & Su, 2020; Scarrow, 2018). However, the majority of these studies focus on the effect of public subsidies and donations on the democratic process, but little attention has been given to two elements that can also have important political and economic implications. One of these is the bank indebtedness of political parties and the other is the financial relations that they maintain with their foundations.

As pointed out by the Group of States Against Corruption (GRECO, 2016), when political parties apply to credit entities for funding, and especially when this causes high

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indebtedness, it can pose a risk for democracy and for the economy as a whole. Credit entities, like other corporate sectors, can be more inclined to finance or condone debts of major parties (Cox & Magar, 1999), and tend to finance parties that control legislative power with the purpose of being able to influence policymaking that can affect their interests (Barber, 2016; Cagé, 2018, 2020; Fink, 2017; Lambert, 2019; Mian et al., 2010; Ruíz-Rico, 2015).

In addition, it is often stated that political foundations have been created *ad hoc* by the parties in order to serve both their political and economic interests (León, 2019; Pinto-Duschinsky, 1991). As they are theoretically independent organisations, these foundations enjoy a financing regime that is different to that of political parties, and they can receive donations from sources that are not permitted by the parties. In practice, this legal divergence enables the foundations to become a gateway for the irregular and illegal financing of political parties (Reed et al., 2021; Sánchez Muñoz, 2013, 2015; Santano, 2016; Van Biezen, 2003).

The two abovementioned problems coexist in the financing system of political parties in Spain. On the one hand, one of the issues endemic to political parties in Spain is bank over-indebtedness. This is a matter of great concern because, as pointed out by the GRECO (2009, 2011, 2013, 2015, 2016), it reveals the Spanish parties' vulnerability to and dependence on credit entities. In addition, it opens up the possibility for loans to be used by credit institutions to finance political parties, thereby eluding the limitations on donations as established by legislation. On the other hand, funding received by Spanish political foundations is subject to few restrictions and the control and auditing of their economic-financial activity by the Court of Auditors (COA) is limited. Thus, nothing prevents opportune company donations from continuing to reach the political parties through their foundations (GRECO, 2009, 2011, 2013, 2015, 2016; Sánchez Muñoz, 2015; Santano, 2016). This fact has also been reiterated by COA in the in the Audit Reports for Political Party Accounts (ARPPA) between 2014 and 2019. This supervisory body has warned that political foundations should adapt their actions to those of this type of non-profit entities, instead of merely holding assets made available to political parties, or engaging in fundraising to finance them.

In view of the above considerations, the income, and especially the donations, that Spanish political foundations receive can end up being included in the budgets of the political parties themselves. Therefore, they can be constituted as an additional source of funding for the parties, leading to an increase in expenditures (Casal Bértoa et al., 2014) and, just like the other sources of funding examined by Cavero and González Morales (2021) they influence their level of bank indebtedness. Hence, the aim of this paper is to provide an overview of the problem of bank over-indebtedness of Spanish political parties as well as the laxity of the financing regime of their political foundations and to analyse whether donations (from natural or legal persons and contributions from the party) that these foundations receive also affect the decision of Spanish political parties to apply to banking institutions to obtain financing. In addition, we study how other economic, institutional and political factors can condition the donations received by the foundations and the bank indebtedness of the political parties. This study is based on a longitudinal analysis of the annual accounts of the Spanish political parties represented in the 'Congress of Deputies' between 2007 and 2019, and on the figures for donations received by the group of foundations that are organisationally linked to each of the parties in the same period.

The rest of this paper continues as outlined here. The next section discusses the regulation and control of the debt with credit entities of the political parties. Then, the peculiarities of the funding regime of political foundations are presented. This is followed by a brief description of the financial relations that are established between foundations and political parties and the formulation of the research hypotheses. Next, the methodology and case selection are explained, and after presenting the study results, the final section presents main conclusions.

2. Bank indebtedness: an unresolved issue in the control of political party funding in Spain

Economic insufficiency has been a constant in Spanish political parties for more than 40 years. Therefore, in a context of growing electoral and organisational costs (Blumenberg, 2013; García Viñuela & González de Aguilar, 2014; Nassmacher, 2009; Wolfs & Smulders, 2018), credits from the banking sector have become one of the main sources of funding (Ariño, 2009; Pérez Rivas, 2019; Rodríguez López, 2011). Although it is one of the sources of funding that has most come into question, it has not been regulated adequately and it is notably one for which no limits have been put in place, leading to a high level of bank indebtedness that Spanish parties have been shouldering for decades. As revealed in the ARPPA by the COA between 2007 and 2019, all political parties with representation in the Congress of Deputies maintained an average annual bank debt of 204,25 million euros, reaching a historic high of 270,94 million euros in the 2011 financial year.

It should be noted that when the first regulation for party funding was approved in 1987, in order to curb indebtedness, it established that it was prohibited to dedicate more than 25% of income from public subsidies to the annual amortisation of credits. Nevertheless, these limits were not always met, so they could not prevent the parties from becoming more indebted. Conversely, although not contemplated in the regulation, they helped towards some credits ending up unpaid and others being cancelled (Murillo de la Cueva, 1993). Figures on non-payments and cancellations are scarce because the parties and the finance entities themselves have an interest in hiding them (Ariño, 2009; Sánchez Muñoz, 2013); however, according to the GRECO (2009) estimations, between 1997 and 1999 alone, credit entities cancelled party loans to a value of 19,100,000 euros.

The truth is that for a long time some parties saw cancellations as the only solution to their pressing financial situation. Therefore, when the legislation was reformed in 2007, they supported authorising the negotiation of debt conditions between political parties and credit entities with the only requirement being that they should be established according to the uses and customs of trade activity. In fact, this meant leaving 'the door open to cancellations' (Ariño, 2009, p. 17) because unlike donations, no quantitative limit was imposed on the cancellations and if they were to occur, it was only mandatory for each party to inform the COA and the Bank of Spain. However, no solution was provided for the structural problems of the parties' economic insufficiency, and they could actually become more indebted relying on the fact that their debts would be condoned. As the GRECO (2009) recognised with great concern, this legal provision could imply that credit entities would use loans to finance political parties without having to conform to the restrictions imposed on donations.

Criticisms of the questionable legitimacy of debt cancellations forced their prohibition in 2015. They were seen as 'a breach of the principles of objectivity, equality/proportionality and ideological neutrality that drive the financing model' (Ruíz-Rico, 2015, p. 299), and also the cause behind the democratic and economic distortions arising from these types of relations between banks and political parties (Cingano & Pinotti, 2013). Nevertheless, the scope of this prohibition is questionable. Among other shortcomings, the regulations still allow parties to reach agreements with credit entities regarding the conditions of their debt, although it includes a new provision whereby the type of interest they agree on cannot be lower than that applied under market conditions. In addition, no control at all has been established to avoid unpaid debts (and not claimed by the bank) from becoming covert write-offs (Pérez Rivas, 2019), and more importantly, no limit to the possible indebtedness of political parties has been established, so in the area of party funding in Spain, the problem of bank over-indebtedness continues to be an unresolved issue.

3. Foundations linked to political parties: specific characteristics of their financing regime

Political foundations are officially independent legal entities, but they maintain a strong link with the political parties they are associated with. This link is not just limited to sharing ideology, objectives and participating in party activities, but it also exists in their economic-financial relations with political parties. However, as far as financing is concerned, Spanish legislation establishes special provisions for these organisations, which demonstrates the favourable treatment that the legislator wishes to give political foundations in relation to the control and transparency of their financial activity (Reed et al., 2021; Sánchez Muñoz, 2015; Santano, 2016).

The legislator's laxity is best illustrated by the example of donations. While donations to parties by legal persons have been completely banned and those from natural persons have been limited to 50,000 euros per year (if they are immovable property there is no limit) since 2015, political foundations can receive any amount from both natural and legal persons. They are only banned if they proceed from public bodies, entities or companies. Even so, donations from companies that provide services or carry out works for public Administrations through a valid contract are considered legitimate. The only requirement for donations from legal persons is that there is an agreement with the body or competent representative to that effect and if they are monetary and over 120,000 euros a public document should be drawn up.

Undoubtedly, allowing political foundations to receive donations from legal persons is not consistent with the reason why they are prohibited for parties. If the danger arising from business money, and specifically money from companies contracted by the Administration, is that it is given with the intention of intervening in political decisions, it does not seem less dangerous if it is received by foundations whose managers are closely linked to political parties. Such a legal provision only makes it evident that the legislator is unwilling to restrict the potential indirect channels of illicit and irregular funding of political parties (Boix Palop, 2014; Ridao, 2014).

However, this legislative laxity also becomes apparent in another legal provision, in this case related to contributions received in the framework of collaboration agreements (Pérez Rivas & Sanjurjo, 2020; Sánchez Muñoz, 2013, 2015). Since 2007, the COA included in the ARPPA the warning that the majority should be considered donations, alluding to the essentially gratuitous nature of these contributions, since they were not in exchange for any service by the political foundation. However, this observation was not taken into account and in 2012 the legislator established that no monetary or equity contribution should be considered a donation if its purpose is to finance an activity or specific project which, on being related to the social or statutory objective of the intervening entities, responds to their common interest. It has to be mentioned that as García Viñuela (2019) suggests, for companies in general, this cover-up formula for financing political foundations is more attractive since it is less negative for their image. Besides, since these collaboration agreements can even be entered into with public bodies, entities and companies, the contributions made by these public sector entities to political foundations would not be illegal either, although they would be if they were donations (Sánchez Muñoz, 2015).

Moreover, it should be noted that the COA only has the power to audit contributions received by the foundations and entities linked to political parties and the expenses charged against public subsidies, but much of the income and expenses are beyond their control. Consequently, they cannot carry out an adequate supervision of the legality of the accounting of these organisations, which considerably undermines their ability to control political finances.

Hence, the current financing regime and the control of foundations linked to political parties is manifestly in need of improvement, and undoubtedly it is one of the greatest loopholes that exists in the regulation of political financing in Spain. The almost total absence of limits in relation to the subjects that can donate to associated foundations and entities and the amount they can donate, together with the possibility that these organisations could transfer funds to the parties means that opportunistic money evades legal controls and can continue flowing into the political parties.

4. Relation between the bank indebtedness and the cost of debt of political parties and the donations their associated foundations receive

The economic-financial relations between political parties and their foundations are frequent and although many of them can be extremely ambiguous, they are assumed to be consolidated practices in the context of political organisations. The COA has pointed out some of these practices in the ARPPA, although it is understood that the financial framework that may exist between political parties and the foundations they control is complex and largely beyond the control of this regulatory body.

Among the economic-financial operations between political parties and their foundations pointed out by the COA, the following should be cited: transfers of economic aid from political parties to their foundations, the provision of guarantees, granting credits, debt cancellations, property leases, fees paid to the foundations by public posts or services provided by political groups to their foundations.

It should be noted that accounting entries which reflect some of these operations can be fictitious and in reality hide a transfer of irregular funding for political parties. This is demonstrated in the case of irregular financing by Convergència Democràtica de Catalunya (CDC) through its foundations Trías Fargas (subsequently CatDem) and Fórum Barcelona and by the Partido Popular (PP) in Madrid through the foundation for Desarrollo Económico y Social de la Comunidad Autónoma de Madrid (Fundescam). According to the judicial investigations, through their foundations, these parties would have received donations from businesspeople in exchange for being awarded public contracts. These are donations that the foundations channel towards the party using different formulas. For example, by paying invoices for fictitious or overvalued services, by paying the invoices of third parties who in fact provide services to the party, having staff that work for the party on their payroll or by awarding credits.

Although these are not the only cases of irregular funding that have affected the political panorama in Spain, they do bring to light how political parties can continue to receive opportune business financing (or any other type of illicit funding) through their foundations. Therefore, they confirm the relevance that donations received by political foundations can have for the treasury of the parties they are associated to. The study by Cavero and González Morales (2021) shows how Spanish political parties tend to increase their level of indebtedness, the higher the income they receive in donations and contributions from public posts. Following on from this, in this paper we theorise that the parties' decision to resort to bank indebtedness could be affected by the donations that their foundations receive. Some examples have already been cited of how illegal money can be laundered (fundamentally business donations) so that it finally increases the budgets of political groups. Insofar as the parties count on their foundations as part of the mechanisms used to channel illicit donations so that they can shoulder their expenses or at any given time make monetary transfers to them, they will rely on them as a potential source of income. This perspective leads to the definition of the following hypothesis:

H1: The donations received by the foundations linked to political parties condition the level of bank indebtedness of political parties.

Therefore, it's important to highlight that these donations can also have a significant influence on the risk perception by financial entities and consequently have a direct impact on the interest rates political parties must face when acquiring debt. When a political party or, in this case, its foundations, receives a steady and substantial flow of donations, it can be interpreted as an indication of solid financial backing, whether at the level of social support or from specific interest groups. This situation can contribute to the development of a good financial reputation for the political party over time, and following economic theory principles, this solid financial reputation can translate into tangible economic benefits, such as the possibility of accessing capital at lower costs (Diamond, 1989). Consequently, the following hypothesis is proposed:

H2: The cost of debt is inversely related to the level of donations received by the foundations linked to political parties.

It is also necessary to take into account the variables that control the impact that donations received by the foundations and cost of debt have on the bank indebtedness of political parties. A very important one is party size. The public funding received by parties is proportional to the number of votes and seats in parliament, and therefore the larger the party, the larger the public subsidies it receives, and the greater its capacity to generate other private income. This may enable them to access bank loans with lower interest rates and more advantageous conditions (García Cotarelo, 1985). Nevertheless, there can also be an inverse relation between indebtedness and size, since the recognition and reputation of larger political parties can facilitate their access to other channels of financing that are different to indebtedness (Cavero & González Morales, 2021). Some alternative channels that may be more limited for small organisations (Mato, 1990).

Moreover, in line with previous considerations, the voting intention of political parties is also a factor that can determine parties' indebtedness. The more seats they are projected to win in opinion polls, the higher their forecasts of public funding, and this may influence their borrowing capacity. Political parties may be willing to borrow more to finance their activity, and financial institutions may be less credit constrained because of the guarantee offered by public subsidies. However, a higher voting intention and, as a consequence, a higher projection of public funding could also reduce the parties' need to borrow. Moreover, it could translate into a lower debt burden if financial institutions, based on voting intentions, consider future cash flows to be secure and, as a result, lend at lower interest rates and on more favourable terms.

Another variable to consider is ideology. According to the studies by Katsaitis (2020), covering the European context, and by Parrilla et al. (2016), focusing on the Spanish case, the political foundations situated on the centre-right and right axis receive larger donations than those situated on the left and extreme left axis. Hence, it would be foreseeable that when the donations interact with the traditional left/right dichotomy, the conservative position would be the one to have an impact on the banking dependence of political parties.

Similarly, the finance sector could be more aligned with political parties that have close business ties and are generally associated to the right-wing ideological spectrum (Rudolph, 1999). This sector favours them by awarding them credit which causes their indebtedness to increase, or it helps them by applying lower interest rates and by not reclaiming non-payments or even cancelling their debts. In this case, the impact on bank indebtedness would be negative. However, as Brunell (2005) and Barber (2016) recognise, instead of catering to ideological motivations, the finance entities could also decide to award financing to political parties from a different spectrum with the intention of gaining access to public policy makers. If this were the case, bank indebtedness would not depend on the ideological space the political party occupies.

In the same way, the governmental status of a party could affect their level of bank indebtedness. Credit institutions could favour the political parties that lead central government, either providing them with more credit or offering them preferential treatment regarding financing conditions and debt payments. The same thing happens with donations, which, when made with the intention of obtaining some type of benefit from political representatives, will be made mainly to parties (and their foundations) that have control of the public agenda (Cox & Magar, 1999; Fink, 2017; Katsaitis, 2020; Rudolph, 1999).

Finally, it is also important to value the effect of the political party's scope on their bank indebtedness. Political parties geographically established on a national level would be associated with higher bank indebtedness figures (Cavero & González Morales, 2021). The most evident cause for this is staff and infrastructure costs, as well as those deriving from taking part in different types of elections (municipal, regional and general), which are much higher than those for parties who only participate in regional politics (Ariño, 2009; Blumenberg, 2013; García Viñuela & González de Aguilar, 2014).

5. Research design and empirical study

5.1. Sample

The hypothesis established is contrasted using the economic-financial information of the political parties with representation in the Congress of Deputies between 2007 and 2019 and the figures of the donations received by the group of foundations organisationally linked to each of the political parties in the same period. Therefore, a panel data is presented comprising nine political parties with a total of 117 observations.

Table 1 contains the identity of the political parties included in the study, and the identity of their respective foundations. 25 foundations in total linked to nine political parties with representation in the Congress of Deputies between 2007 and 2019.

The accounting data used has been obtained from the ARPPA issued by the COA corresponding to the financial years the study period covers. To be exact, for political parties the information has been obtained from the balance sheets and profit and loss accounts, and for the respective foundations information has been taken from the donation figures that the COA publishes in the ARPPA. The financial statements of the political parties have been reworked to correct, where possible, accounting errors and deficiencies observed by the COA. This procedure has also been followed for the donations received by the associated foundations.

This study covers the period from 2007, the first year when the economic-financial activity of the foundations linked to the political parties was subject to auditing and

Table 1. The political parties and foundations analysed.

Political Party	Associated Foundations
Izquierda Unida (IU)	Fundación por la Europa de los Ciudadanos (FEC)
Partido Socialista Obrero español (PSOE)	Fundación Alfonso Perales, Fundació Centre d'Estudis Socials i Desenvolupament Gabriel Alomar, Fundación Ideas para el Progreso, Fundación Jaime Vera, Fundación Matilde de la Torre, Fundación Pablo Iglesias, Fundación para el Estudio de los Problemas de las Ciudades, Fundación Societat i Progrés de la Comunitat Valenciana, Fundación Perspectivas de Castilla y León, Fundación Progreso Global, Fundación José Barreiro, Fundación Ramón Rubial, Fundación Tomás Meabe
Partido Popular (PP)	Fundación para el Análisis de los Estudios Sociales (FAES), Fundación para el Desarrollo Económico y Social de la Comunidad de Madrid (FUNDESCAM), Fundación Humanismo y Democracia, Fundación Popular de Estudios Vascos
Convergència Democràtica De Catalunya (CDC)	Fundación Catalanista i demócrata Trías Fargas (CATDEM), Fundación Nous Catalans
Bloque Nacionalista Galego (BNG)	Fundación Galiza Sempre
Coalición Canaria (CC)	Fundación Canaria 7 Islas, Fundación Canaria Centro de Estudios Canarios Siglo XXI
Esquerra Republicana de Catalunya (ERC)	Fundación Josep Irla
Partido Nacionalista Vasco (PNV)	Fundación Sabino Arana
Partido de los Socialistas de Cataluña (PSC)	Fundación Rafael Campalans

control by the COA, until 2019, as it is the last ARPPA approved by the COA at the time of writing this paper.

5.2. Variables

The dependent variables are the level of bank indebtedness of political parties and the cost of debt. In the study, the measurement of political parties' indebtedness is addressed through two distinct approaches: first, as the ratio between bank debt and total assets (DEBT); second, as the relationship between bank debt and total ordinary revenues (DEBTOR). The inclusion of both metrics aims to provide a comprehensive assessment of the financial position of political parties, exploring how different ways of measuring bank debt may influence the conclusions, ultimately ensuring the robustness and reliability of the results. Cost of debt (CD) is measured as the ratio of financial expenditure to bank debt (Amat Salas, 2005).

The independent variables correspond to the aggregate figures of the donations and contributions received by the foundations linked to political parties, deflated by the figure of total assets. There are three variables. Individual donations (ID), partly comprising contributions made by political posts to their political parties. Donations from businesses or other legal entities (BD), added to which is the income from some collaboration agreements, understood by the COA to be donations because of the conditions under which they were made. And the contributions the foundations receive from the political parties (PPD) they are linked to. Furthermore, the cost of debt is included as an explanatory variable for the level of indebtedness of political parties. When interest rates are higher, political parties are likely to show less willingness to take on new debt (González Soto et al., 2021). Similarly, the level of indebtedness is considered an explanatory variable for the cost of interest. When financial institutions perceive a greater risk associated with lending money to a political party with a high level of indebtedness, they may charge higher interest rates.

Additionally, the impact the donations received by the foundations have on the bank indebtedness of political parties is controlled by introducing four control variables into the model. This will enable the validity of the hypothesis to be accurately proven and consequently improve the rigour and depth of the research. These variables are: size (SZ) of the political party measured by the percentage of seats held by each political party in the Congress of Deputies (Döring & Regel, 2019); the voting intention (VI) measured by the number of seats that the estimation of the electoral results carried out by the Center for Sociological Research in the months prior to the holding of general the elections (specifically in February 20 November 200811 and 20 May 201516 and March 2019) gives to each political party; the scope of the party's activity (national or regional) (SCP); the fact that it has been in the national government or not (GOV); and finally, the ideological position of the party and foundations (IDE). The last three variables have been dichotomously coded. In the case of 'ideology', although it is a simplistic classification of the political spectrum, it is considered useful and adequate for the purpose of this study. Although in contemporary political systems, the left/right ideological dimension cannot encompass the ideological complexity and plurality of the parties, it is still the reference that citizens use to identify themselves politically (González Ferrer & Queirolo Velasco, 2013; Jou, 2010; Navas, 2014).

5.3. Methodology

To test the hypotheses proposed, this study used the three ordinary least-squares regression models (OLS) for panel data with fixed effects are used. These models also include new variables that represent the interactions between the independent and dichotomous variables in order to evaluate their possible influence as moderators between the dependent and independent variables in the different models. In exploring a potential non-linear relationship between various donation types and indebtedness and cost of debt, the inclusion of quadratic terms for these variables is considered.

To test H1, the following regression models are proposed:

$$\begin{aligned} DEBT_{it} = {} & \alpha_0 + \beta_1 ID_{it} + \beta_2 BD_{it} + \beta_3 PPD_{it} + \beta_4 ID^2 it + \beta_5 BD^2 it + \beta_6 PPD^2 it \\ & + \beta_7 CD_{it} + \beta_8 SZ_{it} + \beta_9 IV_{it} + \beta_{10} IDE_{it} + \beta_{11} GOV_{it} + \beta_{12} SCP_{it} \\ & + \beta_{13} IDE * ID_{it} + \beta_{14} IDE * BD_{it} + \beta_{15} IDE * PPD_{it} \\ & + \beta_{16} IDE * ID^2 it + \beta_{17} IDE * BD^2 it + \beta_{18} IDE * PPD^2 i \\ & + \beta_{19} IDE * CD_{it} + \beta_{20} GOV * ID_{it} + \beta_{21} GOV * BD_{it} \\ & + \beta_{22} GOV * PPD_{it} + \beta_{23} GOV * ID^2 it + \beta_{24} GOV * BD^2 it \\ & + \beta_{25} GOV * PPD^2 it \beta_{26} GOV * CD_{it} + \beta_{27} SCP * ID_{it} + \beta_{28} SCP * BD_{it} \\ & + \beta_{29} SCP * PPD_{it} + \beta_{30} SCP * ID^2 it + \beta_{31} SCP * BD^2 it \\ & + \beta_{32} SCP * PPD^2 it \beta_{33} SCP * CD_{it} + \varepsilon_{it} \end{aligned}$$

$$\begin{aligned} DEBTOR_{it} = {} & \alpha_0 + \beta_1 ID_{it} + \beta_2 BD_{it} + \beta_3 PPD_{it} + \beta_4 ID^2 it + \beta_5 BD^2 it + \beta_6 PPD^2 it \\ & + \beta_7 CD_{it} + \beta_8 SZ_{it} + \beta_9 IV_{it} + \beta_{10} IDE_{it} + \beta_{11} GOV_{it} + \beta_{12} SCP_{it} + \beta_{13} IDE \\ & * ID_{it} + \beta_{14} IDE * BD_{it} + \beta_{15} IDE * PPD_{it} + \beta_{16} IDE * ID^2 it + \beta_{17} IDE \\ & * BD^2 it + \beta_{18} IDE * PPD^2 i + \beta_{19} IDE * CD_{it} + \beta_{20} GOV * ID_{it} + \beta_{21} GOV \\ & * BD_{it} + \beta_{22} GOV * PPD_{it} + \beta_{23} GOV * ID^2 it + \beta_{24} GOV * BD^2 it \\ & + \beta_{25} GOV * PPD^2 it \beta_{26} GOV * CD_{it} + \beta_{27} SCP * ID_{it} + \beta_{28} SCP * BD_{it} \\ & + \beta_{29} SCP * PPD_{it} + \beta_{30} SCP * ID^2 it + \beta_{31} SCP * BD^2 it + \beta_{32} SCP \\ & * PPD^2 it \beta_{33} SCP * CD_{it} + \varepsilon_{it} \end{aligned}$$

To test H2, the following regression model is proposed:

$$\begin{aligned} CD_{it} = {} & \alpha_0 + \beta_1 ID_{it} + \beta_2 BD_{it} + \beta_3 PPD_{it} + \beta_4 ID^2 it + \beta_5 BD^2 it + \beta_6 PPD^2 it + \beta_7 DEBT_{it} \\ & + \beta_8 SZ_{it} + \beta_9 IV_{it} + \beta_{10} IDE_{it} + \beta_{11} GOV_{it} + \beta_{12} SCP_{it} + \beta_{13} IDE * ID_{it} + \beta_{14} IDE \\ & * BD_{it} + \beta_{15} IDE * PPD_{it} + \beta_{16} IDE * ID^2 it + \beta_{17} IDE * BD^2 it + \beta_{18} IDE * PPD^2 i \\ & + \beta_{19} IDE * DEBT_{it} + \beta_{20} GOV * ID_{it} + \beta_{21} GOV * BD_{it} + \beta_{22} GOV * PPD_{it} \\ & + \beta_{23} GOV * ID^2 it + \beta_{24} GOV * BD^2 it + \beta_{25} GOV * PPD^2 it \beta_{26} GOV * DEBT_{it} \\ & + \beta_{27} SCP * ID_{it} + \beta_{28} SCP * BD_{it} + \beta_{29} SCP * PPD_{it} + \beta_{30} SCP * ID^2 it + \beta_{31} SCP \\ & * BD^2 it + \beta_{32} SCP * PPD^2 it \beta_{33} SCP * DEBT_{it} + \varepsilon_{it} \end{aligned}$$

In contrast to cross-sectional or temporal models, panel data models permit unobservable time effects (fixed or temporary) to be included and the individual heterogeneity of the study units to be controlled (Arellano, 1993; Arellano & Bover, 1990). To decide if the effects are fixed or random the Hausman test is performed, revealing that a correlation exists between the independent variables and the unobserved effects, consequently the fixed model is estimated. Hence, the effects of unobserved heterogeneity corresponding to the specific characteristics of each political party and period are contemplated by introducing a fictitious variable (α_i) for each party and year.

The Pearson correlation coefficient is used to identify the degree of linear relationship between the quantitative variables of the model. A value of this coefficient higher than 0.8, indicates that there are possible multicollinearity problems that could affect the estimation of the regression coefficients and consequently the reliability of the predictive model (Gujarati, 2004). Although some variables are highly correlated, they do not appear in the results of the regression. Besides, on analysing the variance inflation factors and the condition indices for the independent variables, which do appear in these results, they are verified to be lower than 10 and 30 respectively, so the presence of multicollinearity in the model can be ruled out (Kleinbaum et al., 1998; Menard, 2002; Pedhazur, 1997).

6. Results and discussion

6.1. Descriptive statistics

Table 2 shows the descriptive statistics (mean, median and standard deviation) of the two calculated bank debt ratios and the cost of debt of the political parties, along with the ratios of the variables representing the different types of donations received by the foundations. Tables 3, 4 and 5, present the descriptive statistics of the same variables differentiating the sample into right-wing and left-wing parties, parties that have governed and those that have not, and parties that have a national or regional scope. The statistical significance of mean difference is determined by the t statistics that appear in the last column.

It is evident from the data presented in Table 2 that the ratio of bank indebtedness among Spanish political parties, whether measured against their total assets (DEBT) or annual revenues (DEBTOR), is notably high. On average, this ratio represents more than 150% of the parties' assets and exceeds 90% of their annual revenues. However, there is substantial dispersion in the data, highlighted by the high standard deviation of these

Table 2. Descriptive statistics of political parties.

	Pooled sample n =117		
Variables	Mean	Median	S.D
DEBT	1.5474	0,4819	3.7736
DEBTOR	0.9034	0.7072	0.7051
ID	0.0683	0.0319	0.1336
BD	0.2471	0.0020	0.4361
PPD	0.3623	0.0003	0.8876
CD	0.0439	0.0368	0.0374

Table 3. Descriptive statistics of political parties with left-wing ideologies (0) and political parties with right-wing ideologies (1).

	IDE = 0 n= 65			IDE = 1 n= 52			Mean difference
Variables	Mean	Median	S.D	Mean	Median	S.D.	t
DEBT	2.3959	0,5639	4.8620	0.4870	0.2918	0.8129	−1.9086***
DEBTOR	0.8482	0.7249	0.6181	0.9724	0.6457	0.8016	0.1242
ID	0.0705	0.0434	0.0784	0.0653	0.0224	0.1836	−0.0053
BD	0.1186	0.0000	0.2661	0.4035	0.1347	0.5429	0.2850***
PPD	0.3095	0.0266	0.7274	0.4196	0.0000	1.0391	0.1100
CD	0.0429	0.0387	0.0396	0.0451	0.0358	0.0348	0.0021

Level of bilateral significance.
*p < 0,1; **p < 0.05; ***p < 0.01.

variables. This level of debt far exceeds the optimal indebtedness ratio proposed by Rees (1990) for companies, which typically ranges between 0.4 and 0.65. Despite not being directly comparable legal entities, such a substantial debt level significantly compromises the financial sustainability of both for-profit and non-profit organisations, exposing them to vulnerability before credit institutions.

Nevertheless, this situation is not the same for all the parties. Although this analysis is not directed at the individual position of each party in this respect, it does differentiate between groups and shows disparate indebtedness figures in doing so. Particularly depending on how bank indebtedness is measured. Statistically significant differences appear between all established groups when

Table 4. Descriptive statistics of political parties that have not governed (0) and political parties that have governed (1).

Variables	GOV = 0 n= 91			GOV = 1 n= 26			Mean difference
	Mean	Median	S.D.	Mean	Median	S.D.	t
DEBT	1.8492	0.4419	4.2349	0.4908	0.5227	0.1342	−1.3584***
DEBTOR	0.9568	0.8305	0.7855	0.7164	0.6900	0.1965	−0.2404***
ID	0.0763	0.0396	0.1466	0.0428	0.0205	0.0757	−0.0335*
BD	0.2225	0.0000	0.4797	0.3189	0.2152	0.2664	0.0964
PPD	0.4629	0.0003	0.0152	0.0838	0.0051	0.1400	−0.3792***
CD	0.0457	0.0366	0.0418	0.0373	0.0375	0.0124	−0.0084**

Level of bilateral significance.
*p < 0,1; **p < 0.05; ***p < 0.01.

Table 5. Descriptive statistics of regional political parties (0) and national political parties (1).

Variables	SCP=0 n= 78			SCP=1 n= 39			Mean difference
	Mean	Median	S.D.	Mean	Median	S.D.	t
DEBT	1.9270	0.3251	4.5619	0.7880	0.5853	0.6425	−1.1390**
DEBTOR	0.9061	0.6611	0.8332	0.8979	0.7741	0.3328	−0.0083
ID	0.0893	0.0453	0.1562	0.0306	0.0085	0.0641	−0.0587***
BD	0.2561	0.0000	0.5067	0.2306	0.1291	0.2675	−0.0254
PPD	0.4693	0.0000	1.0210	0.0809	0.0060	0.1381	−0.3885***
CD	0.0488	0.0395	0.0442	0.0341	0.0334	0.0135	−0.0147***

Level of bilateral significance.
*p < 0,1; **p < 0,01.

the DEBT variable is considered. On average, left-wing parties (Table 3), those that have not been in government (Table 4) and parties at regional level (Table 5) have a higher ratio of bank debt to total assets. In terms of DEBTOR, the most substantial and statistically significant variation is between parties that have governed and those that have not, as shown in Table 4. The average over-indebtedness of parties that have not been in national government is 33,55% higher than that of the parties that have been in government.

As regards the cost of debt, it should first be noted that, according to data published by the Bank of Spain, the average interest rate applied by financial institutions for loans and credits to households, private non-profit institutions serving households and non-financial corporations between 2007 and 2019 was 6.97%. As Table 2 shows, the average cost of debt for political parties over the same period is considerably lower, just 4.4%. And while there are no significant differences between the cost of financing for right-wing and left-wing parties (Table 3), the data does show that for parties in government (Table 4) and parties at the national level (Table 5), the cost of borrowing is lower and statistically significant.

Regarding the donations and contributions received by the foundations, they also exhibit different patterns based on the political party groups they are associated with. Donations made by individuals are the least substantial and, based on the t-statistic, show significant differences between those received by foundations linked to national parties and those associated with regional parties, with the average amount being higher in the latter group of foundations. There are also differences between donations received by foundations of parties that have governed the country and those that have not; the amounts are higher in parties that have not been in government.

On the other hand, donations from legal entities, as depicted in Tables 3, 4 and 5, primarily benefit foundations linked to right-wing parties, political parties that have led the central government, and regional level parties. This outcome aligns with suggestions that corporate sectors tend to fund right-wing parties (Cagé, 2020; Katsaitis, 2020) and that when corporate donations have pragmatic motives, they predominantly go to parties controlling public policies (Mcmenamin, 2012). However, differences between groups are statistically significant only when foundations are separated according to the ideology of the associated parties.

Finally, concerning the contributions that political parties make to their foundations, as reflected in Tables 4 and 5, regional parties and those that have not governed the country make the most significant contributions. While right-wing parties contribute more economically to their foundations, in this case, the difference in means with left wing parties is not statistically significant.

6.2. Multivariate analysis

Table 6 presents the results of the regression models proposed to test the two research hypotheses. Models (1) and (2) analyse the relationship between the selected variables and bank indebtedness of political parties and, model (3) focuses on analysing how these selected variables influence the cost of bank indebtedness.

Table 6. Multiple linear regression models result.

Variables	DEBT (1)	DEBTOR (2)	CD (3)
Intercept	5.404	0.999	0.076
	(4.747)***	(9.149)***	(6.528)***
ID	−0.844	0.125	−0.617
	(−3860)***	(0.652)	(−0.897)
BD	0.425	1.117	−0.652
	(2.898)***	(1.181)	(−0.546)
PPD	1.129	0.189	0.581
	(9.006)***	(0.915)	(0.576)
ID2	1.063	−0.944	0.576
	(4.557)	(0.252)	(0.743)
BD2	−0.152	−1.811	1.002
	(−0.719)	(−1.043)	(0.457)
PPD2	−1.361	−2.32	−0.608
	(−3.579)	(−1.62)	(−0.596)
CD	−0.115	−0.265	
	(−1.693)*	(−2.972)***	
DEBT			−0.612
			(−3.518)***
SZ	0.281	−0.400	−0.236
	(0.567)	(−0.119)	(−2.377)**
IV	0.715	−0.578	−0.147
	(1.168)	(−0.241)	(−0.196)
IDE	0.417	0.597	−0.345
	(3.157)***	(5.123)***	(−0.773)
GOV	−0.385	−0.549	0.457
	(−1.415)	(−1.403)	(0.446)
SCP	−0.305	−1.143	−2.514
	(−1.325)	(−0.391)	(−0.337)
IDE*ID	−0.329	−0.191	−0.179
	(−2.590)***	(−1.991)**	(−1.804)**
IDE*BD	−0.335	−0.196	0.608
	(−1.997)**	(−1.853)**	(0.5)
IDE*PPD	−1.066	−0.427	−0.184
	(−8.079)***	(−4.463)***	(−1.78)**
IDE*ID2	1.980	−4.695	−0.002
	(−1.702)	(−1.103)	(−0.002)
IDE*BD2	0.344	1.971	−0.893
	(1.204)	(1.145)	(−0.411)
IDE*PPD2	−1.067	0.523	0.582
	(−2.338)	(1.3)	(0.590)
IDE*CD	−0.922	−0.135	
	(−2.277)	(−0.77)	
IDE*DEBT			0.312
			(1.832)**
GOV*ID	0.596	0.318	0.115
	(2.360)	(0.841)	(0.243)
GOV*BD	−0.141	−0.306	0.340
	(−0.920)	(−3.297)***	(0.391)
GOV*PPD	−0.306	0.186	−0.485
	(1.336)	(1.336)	(−0.666)
GOV*ID2	−0.508	−0.234	0.136
	(−2.055)	(−0.664)	(0.311)
GOV*BD2	0.066	0.216	−0.179
	(0.051)	(0.363)	(−0.2444)
GOV*PPD2	0.051	−0.929	0.261
	(0.181)	(−0.482)	(0.422)
GOV*CD	−0.095	0.33	
	(−0.465)	(0.956)	
GOV*DEBT			0.281
			(0.598)

(*Continued*)

Table 6. (Continued).

Variables	DEBT (1)	DEBTOR (2)	CD (3)
SCP*ID	−2.280	1.013	−0.314
	(−2.048)	(0.317)	(−0.184)
SCP*BD	−0.141	0.372	0.709
	(−0.374)	(0.338)	(0.845)
SCP*PPD	−0.306	1.275	−0.606
	(−0.920)	(0.574)	(−0.906)
SCP*ID2	1.792	−0.926	−0.016
	(2.065)	(−0.428)	(−0.012)
SCP*BD2	1.278	0.133	0.707
	(2.501)	(0.171)	(0.708)
SCP*PPD2	−0.283	−0.733	0.607
	(−2.920)	(−1.479)	(1.078)
SCP*CD	−0.152	0.798	
	(−0.729)	(0.629)	
SCP*DEBT			0.311
			(0.674)
Fixed effect variables	Included	Included	Included
N	117	117	117
Adjusted R^2	0.656	0.323	0.198

Level of bilateral significance.
**p* < 0,01; ***p* < 0,05; ****p* < 0,01.

6.3. Relationship between donations received by foundations and the indebtedness of political parties

The results of models (1) and (2) confirm that the donations that foundations linked to political parties receive act as a determining factor in their bank debt, as predicted in the first research hypothesis. The lack of significance in the quadratic term would indicate that there is a linear relationship between these variables and indebtedness.

On the one hand, according to model (1), the statistical significance and positive sign of the coefficients BD ($B = 0.425$; $p < 0.01$) and PPD ($B = 1.129$; $p < 0.01$) suggest that if political groups rely to some extent on the fact that donations from legal persons and contributions made by political parties could end up increasing their own budgets, they will resort more to bank indebtedness as an additional source of funding. This result is in line with the one obtained by Cavero and González Morales (2021), according to which, the Spanish political parties increase their bank indebtedness as the amount of donations they receive increases. The coefficients of these two variables in the results of model (2) are also positive, although they are not statistically significant. However, the positive relationship of BD and PPD with DEBT in model (1) weakens when the parties linked to the foundations are right-wing. This is evidenced by the statistical significance and negative sign of the coefficients of the interactions IDE*BD ($B = -0.335$; $p < 0.05$) and IDE*PPD ($B = -1.066$; $p < 0.01$).

On the other hand, the results of model (1) shown that individual donations received by foundations decrease the bank debt of all parties ($B = -0.844$; $p < 0.01$). Moreover, a more pronounced effect is observed in right-wing parties, as indicated by the statistically significant interaction IDE*ID ($B = -0.329$; $p < 0.01$). As the COA indicates in the ARPPA, different political parties collect these contributions through their foundations, and this is done to favour the tax regime applied to them, as well as providing the foundations with their own resources. Hence, it is likely that the parties that most make contributions of this type to their foundations will have fewer financial needs, and therefore they will present a lower level of bank indebtedness.

Regarding the results of model (2), they confirm the influence of donations received by foundations on the bank debt of right-wing parties. All contributions received by these foundations, as well as those made directly by the right-wing parties themselves, aid in reducing the party's bank debt. This is shown by the negative and statistically significant coefficients of the interactions IDE*ID ($B = -0.191$; $p < 0.05$), IDE*BD ($B = -0.196$; $p < 0.05$), and IDE*PPD ($B = -0.427$; $p < 0.01$). Additionally, the model (2) results suggest that donations from legal entities received by foundations linked to parties that have been in the national government have a negative and significant impact on their bank debt ($B = -0.306$; $p < 0.01$).

The results of models (1) and (2) are consistent in showing that an increase in the cost of debt leads to a decrease in the bank indebtedness of political parties, as indicated by the negative and statistically significant coefficients of CD. As highlighted by Memon et al. (2015) in their study based on non-financial private firms, it is probable that political parties, to avoid financial risks and improve their long-term economic viability, minimise their indebtedness as financial expenses rise. An increase in the cost of debt might also motivate political parties to carry out loan renegotiations to secure better conditions, as permitted by current legislation.

In light of the results, the size of political parties and their voting intentions do not significantly influence bank indebtedness. Despite the fact that size is directly linked to the public funding they receive and voting intention to the income they project through this way, and that parties' needs increase as their income does (Sánchez Muñoz, 2015), these variables do not help predict the level of party debt, whether measured in relation to assets or ordinary income. Additionally, there is no relationship between the scope of the political party or having been in government and bank indebtedness. In a general sense, only the ideology of the party significantly influences the level of bank indebtedness in both models. The results of model (1) indicate that being a right-wing party has a positive impact ($B = 0.417$; $p < 0.01$) and the results of model (2) show an even stronger positive impact ($B = 0.597$; $p < 0.01$). This result could be linked to the financial strategies and sources of funding these parties employ compared to left-wing parties. As Rudolph (1999) points out, right-wing parties might be more inclined to seek funding through bank loans due to their historical relationship or alignment with certain business and financial sectors. Meanwhile, left-wing parties might focus on other alternative sources of funding, such as donations or microcredits.

6.4. Relationship between donations received by foundations and the cost of debt of political parties

The second hypothesis of the research suggests that the cost of debt of political parties is inversely related to the level of donations received by their foundations. The results of model (3) reveal that only the donations received by foundations associated with right-wing parties influence the debt cost of these political parties. Furthermore, only individual donations and those made by political parties, as confirmed by the statistical significance of the coefficients of the variables IDE*ID ($B = -0.179$; $p < 0{,}05$) and IDE*PPD ($B = -0.187$; $p < 0{,}05$), also exhibit a linear relationship.

The results indicate that bank indebtedness has a significant negative influence on the cost of debt (B= −0.612; $p < 0.01$). Although this relationship may be contradictory, if a party carries high indebtedness, but has a good payment performance, it can build lender confidence and secure more favourable interest rates, as demonstrated by the findings of Ruslim and Muspyta (2021) within the area of private enterprises. Furthermore, these results might also align with the renegotiation of political parties' debts with financial institutions at lower interest rates, as previously mentioned. Additionally, it should also be noted that, in the period under analysis (2007–2019), the market experienced a general reduction in interest rates. Thus, even with an increase in indebtedness, the cost of debt could have decreased due to this trend in interest rate. However, the result highlight that within right-wing parties, an increase in indebtedness is associated with a significant rise in the debt of cost ($B = 0.312$; $p < 0.05$).

Finally, as reflected in the results of model (3), the control variables IDE, IV, GOV, and SCP do not significantly influence the debt of cost. However, party size does exhibit statistical significance and has a negative impact on the debt of cost (B= −0.236; $p < 0.05$). Consistent with previous research (Kouki & Said, 2012; Sapienza, 2004; Smith, 2012), the size of organisations may be associated with a heightened perception of financial stability and, therefore, be an additional guarantee that offers advantages in negotiations with financial entities.

7. Conclusion

Political foundations are generally subject to less control of their economic-financial activity and, particularly, to a public funding regime with few limits and restrictions. These are unique characteristics that enable them to obtain funds from the business sector and to become a gateway to the irregular financing of political parties. This study offers a new perspective on the relationship between donations received by foundations and the bank indebtedness (and its financial cost) of political parties. The findings reveal that these financial flows influence the level of bank indebtedness and the cost of such debt, particularly among right-wing parties. It's worth noting that the direct influence of foundation donations on party finances raises concerns about independence in political decision-making and impartiality in the political and institutional activities of these parties (Lipcean & McMenamin, 2023; Ohman, 2013).

The research findings demonstrate that the party's ideology plays a significant role in its bank indebtedness as well as in the associated financial cost. While all political parties have consistently resorted to bank credit to finance their electoral and routine activities since the beginning of the political transition (Ariño, 2009), the influence of ideology on bank indebtedness could affect not only the parties' economic solvency but also their autonomy and ability to represent the diverse interests of society. It is important to highlight that this ideological effect on indebtedness could be linked to a potential bias in how financial entities treat certain parties within the political spectrum. Similarly, a parallel interpretation could be drawn concerning the size of party, where, according to our findings, the larger the party, the lower the cost of its debt. Both characteristics of the parties, ideology, and size, could influence equity in access to bank financing and potentially impact the equal opportunities of electoral competitors.

Overall, these results shed light on the problems in the financing of Spanish political parties, the legislative shortcomings with respect to political foundations and the complicated relation of parties with bank indebtedness. However, they also suggest that the question underlying the problems of indebtedness and the irregular financing of Spanish political parties is financial insufficiency. It will be necessary to analyse the expenditures and revenues (electoral and ordinary) of the Spanish political parties and debate whether they are too few or too many in accordance with the reality of modern electoral procedures and in comparison with the political formations of comparable democracies. But, unless an answer is given to the economic problems of political parties, neither the transparency of their financial sources nor equal opportunities in electoral competitions can be guaranteed because money in politics is like water, it always finds a channel (La Raja & Schaffner, 2015).

In any case, a prior understanding of the factors that explain the bank indebtedness of political parties is key to being able to design effective legal and financial mechanisms to control debt. In this regard, the empirical evidence from this study can be valuable for legislators, financial managers of political parties, and the entities and agencies dedicated to preventing corruption and to promoting transparency in political funding, providing them with arguments to be able to determine which direction their decisions should take. Likewise, this study provides information of value to citizens as agents of social control of political representatives' activity. On the other hand, this study opens the way for future research, since the theoretical and empirical perspective of the subject generates enough space to continue advancing and deepening in the matter.

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