

## **Digital innovation in electoral campaigns: the case of microcredit in Podemos**

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### **ABSTRACT**

Crowdfunding and micro-donations for funding political campaigns have been extensively studied, especially in the US. However, digital participatory financing in Europe, with a different regulatory context and relevant public funding, has been investigated less. This article analyses the effects of an innovative and digital-native electoral campaign financing tool: the microcredit. Microcredits consist of small 'civil loans' that a political party requests from sympathisers to finance the party's electoral campaign. Based on the case study of the Spanish party Podemos - the first one to implement it - for the period of 2015-2021, we use official data and party documents to explore the consequences of microcredit. We argue, first, that microcredits (and party financing) should be considered another way to differentiate challenger parties from traditional ones. Second, there is a link between the number and amount of microcredits and the political context, not limited to good electoral expectations but also to the polarised political context. Third, microcredits change the structure of campaign funding. Finally, we point out a regulation problem that may deter other parties from adopting this mechanism and present different legal problems (monitoring, data protection, or potential corruption), showing the regulatory issues for adapting to the digitalisation of politics.

**Keywords:** party financing, regulation, innovation, digitalisation, electoral campaigns, Podemos

### **1. Introduction**

On 30 March 2021, the Spanish party Podemos launched a new microcredit campaign by sending a newsletter to members and sympathisers, stating that “we do not want to owe favours to banks” and claiming that “who pays, rules, and in Podemos, you rule”. Since 2015, Podemos has been using this innovative and digital-native tool developed by the party to finance its electoral campaigns, showcasing the influence of technology and digitalization on political parties. These issues are receiving increasing attention (Chadwick & Stromer-Galley, 2016; Bennet et al., 2018; Gerbaudo, 2019; Barberà, 2022), influencing different dimensions of parties (Dommet et al., 2020; Fitzpatrick, 2022; García Lupato & Meloni, 2023).

The impact of new types of digitally enabled financing in electoral campaigns, such as crowdfunding and micro-donations, have been extensively studied in the United States. However, less attention has been paid to these types of financing in other countries, which are characterised by the pre-eminence of political parties, specific and constraining

regulations, and the crucial role of public funding. Moreover, the link between new types of party financing and the emergence of challenger parties in Europe (De Vries & Hobolt, 2020) should be further explored. Finally, as far as regulation is concerned, new types of digital party funding face the lack of specific regulation, showing the problems of adapting to digitalisation (Gauja, this issue; Borucki & Kettemann, this issue).

This article aims to describe and analyse microcredit in the Spanish party Podemos. In contrast to crowdfunding, which involves a final donation, microcredits are civil loans that the party receives and then returns to the lenders once they obtain the state subsidies for funding elections. This is an interesting development as, to our knowledge, Podemos is the first party ever to use this type of participatory financing. Our exploration of microcredit in Podemos is multi-faceted. Firstly, we analyse what microcredit means in a party context, in particular how Podemos has framed it in the party's official documents, and the content analysis of microcredit communication through newsletters. Secondly, we examine the consequences of microcredit for party financing by using official party data and data from the Court of Audits on the funds raised through microcredit, analysing its impact and the differences in the structure of campaign spending between Podemos and other state-wide Spanish parties. Finally, we investigate how this financing innovation fits with the current political finance regulatory regime. By analysing the Spanish regulation, the position of the Court of Audits, and the recommendations of the Congress' Sub-Commission on the Regime and Financing of Political Parties, we explore the different regulatory problems posed by microcredits for digital political campaigning (Borz et al., this issue).

To accomplish this, the article is structured in the following manner: First, we will examine the impact of digital technologies on financing electoral campaigns. Next, we will discuss the case selection and the data we used, including official microcredit data. After that, we will analyse microcredit as an ideological tool and a participatory mechanism, as well as its impact on the structure of electoral campaign expenditures. Following that, we will address regulatory challenges. Lastly, we will present our conclusions.

## **2. The impact of digital technologies for funding electoral campaigns: crowdfunding and microcredits**

New digital technologies have had a great impact on the implementation and cost allocation of electoral campaigns. There is consensus on how these technologies have changed political campaigning and communication (Dommett & Temple, 2018; Dommett, 2020; Gibson et al., this issue). This impact is particularly relevant given the rising cost of electoral campaigns and the increasing influence of big donors, such as wealthy individuals or big corporations.

Since Obama's 2008 Presidential campaign, the use of technologies to enable small donations has become increasingly significant in the US, both in terms of its impact and the amount raised over time. The US is a unique case compared to most European countries. Firstly, public funding for elections in the US appears to have declined, particularly for the most relevant candidates. During the 2008 primary elections, Obama for the Democratic Party and McCain for the Republican Party were able to raise \$414,2 million and \$216,3 million, respectively, from private sources, avoiding the use of public fund and its limitations (Hansen, 2009). However, differences can be observed between

Democrats and Republicans concerning the sources of donations. Obama received \$150 million from one million donors giving less than \$200 (Hansen, 2009, p. 19; see also IDEA, 2018, p. 8), mainly through online micro-donations, while Republicans received funds primarily from bundled donations and big donors.

Secondly, the regulatory environment in the US differs from that in Europe. According to Weintraub and Levin (2009, p. 464), the Federal Electoral Commission decided in 2005-2006 "to protect and encourage online political organizing, communications, and activities", which has allowed for creative uses of the Internet. In addition, the US presents a "more libertarian view" on party financing (Weintraub & Levine, 2009, p. 476), and donations from corporations and unions have been allowed under the First Amendment (Mendilow, 2018), contrary to European regulations.

On the other hand, most European countries show a different pattern in campaign financing. Political parties are strictly regulated, both for electoral campaigns and their internal organization (Van Biezen & Borz, 2012; Casal Bertoa et al., 2014). Public financing is still very relevant as it represents, on average, more than one-third of parties' resources, except for the UK, with just 14.8%, and Spain, with 83.8% (Ignazi & Fiorelli, 2022). This generally implies less relevance and needs for (online) private donations. According to Scarrow (2018, p. 13), small donations may be allowed but "limited evidence from other sources suggests that they are not widespread." However, as we show in this article, this may be changing and may depend on the type of party. As Jungherr (2016) observed in the German case, regulations make small donations difficult. Big parties tend to finance their campaigns by increasing their membership quota, but smaller parties, such as the Greens, Pirates, or Alternative for Germany, have effectively used online fundraising. This is in line with the two hypotheses regarding the impact of digital technologies on political parties. On the one hand, the normalisation hypothesis states that established parties will benefit the most from new technologies (Margolis & Resnick, 2000). On the other hand, the equalisation (or innovation) hypothesis considers that new parties may benefit from the new opportunities offered by digital technologies, reducing the gap with established parties (Barberà et al., 2021). The case of microcredit in Podemos offers an excellent example of the innovative use of new digital fundraising initiatives.

Microcredit and crowdfunding are essentially different. Crowdfunding originated in the corporate sector, distinguishing between equity crowdfunding and reward-based crowdfunding, the one that is predominant in the political context (IDEA 2018, p. 13). Small donations from a high number of people have a long tradition, but technology allows for more efficient and widespread use of these types of micro-donations. While they cannot be considered a breakthrough innovation, the benefits of online crowdfunding are numerous: they are more inclusive, can reduce the financial influence of big donors, and may help to reconnect parties with their base. Finally, as in other forms of donations, crowdfunding has a basic premise: it increases the chances that the donor will vote for the party, donate again, and engage other people to participate (IDEA 2018, p. 10). However, as the US case showed, while micro-donors are different from big donors, they are still far from being representative of the broader population (Hansen, 2009).

In contrast, electoral microcredit is defined as small 'civil loans' that a political party demands from members, sympathizers, or the public to collect money for financing the party's campaign (even if other uses are possible). Once the party receives the State's subsidies for elections according to their electoral results, they are returned to each

creditor. This is the essential difference with crowdfunding, which implies a final donation, while in microcredit, the money is returned to the lender. Microcredit shares many of the benefits of crowdfunding, such as fostering financial autonomy and reducing the impact of external economic powers on the party.

Another relevant difference between crowdfunding and microcredit is the type of funding. While the former is considered strictly private funding, microcredits could be considered to lie between private and public funding. Indeed, they are initially private, but once they are reimbursed using State subsidies for elections, they become intrinsically linked with public funding. This is relevant because different scholars have argued that public funding may be more transparent (Piccio, 2014; Casal Bertoa & Rama, 2021). Transparency is seen as essential for fostering public trust and confidence in parties, and disclosure of both public and private financing is crucial (OECD, 2016). Although all established democracies have implemented transparency and audit systems, different loopholes exist, together with problems in how parties present their data or its accessibility. Furthermore, it is not even clear what type of transparency is pursued (Dommet, 2020), and lastly, there may be a paradox with transparency, as it may reduce wrongdoing while "having an inverse effect on public confidence in the electoral system itself" (Power, 2020). One of the potential benefits of crowdfunding and microcredit initiatives that rely on small donors and try to foster the relationships between parties/candidates and voters is that they may incentivise greater transparency from the party towards donors/microcreditors, due to the nature of the funding mechanism. This may also lead to parties being more accountable for financial disclosure and transparency, as well as promoting greater internal control over their funding (Casal Bertoa & Rodríguez Teruel, 2017, p. 11).

We can also identify different downsides. As in the case of crowdfunding and microdonations, there may be a representation gap between those who can lend money and the broader electorate. Although the money is eventually returned, it takes up to twelve months to receive the repayment, and microcredits typically start at €50. Additionally, as we will show, Spain has a regulatory problem. Different issues have arisen regarding its implementation, such as what happens if the party cannot return the money or how personal data is managed (Gibson et al., this issue). This could imply difficulties in monitoring and controlling microcredits, potentially allowing misuse.

From this discussion, we can draw some exploratory expectations. Firstly, Podemos, as a new and challenger party, might use microcredit as another way to differentiate itself from traditional parties. Together with an anti-establishment position and a new discourse or policies, they rely on this funding mechanism to further show their distinctiveness. Thus, we should expect microcredits to play an ideological and discursive role in the party (E1). Secondly, as microcredit is an innovation, we should expect a change in how electoral campaigns are funded. As they are based on members' and sympathizers' participation, we should assume a link between electoral expectations, the political context, and the amount raised (E2). Furthermore, due to the nature of microcredit, which must be returned, investment in electoral campaigns could be lower (E3). Finally, as a digital innovation not specifically considered in the current laws, some regulatory problems may arise and deter other parties from using microcredit.

### **3. Case selection and data**

This article is based on a single case study of Podemos. As this party was the first to implement microcredit, it can be considered a paradigmatic case (Flyvberg, 2006). The party has been analysed as a challenger (De Vries & Hobolt, 2020), a movement (Della Porta et al., 2017), a populist (Zulianello, 2019), or a digital party (Gerbaudo, 2019). This is especially relevant for our purposes, as the different party types highlight important factors for analysing the logic and implementation of microcredit. The idea of anti-establishment and innovations of challenger parties, the role of the people vs. the elite, the relevance of the horizontal dimensions within the party and intra-party democracy, and the importance of digital affordances for implementing new participatory mechanisms may help to better understand how microcredit is inserted in a broader conceptualisation of the party.

Podemos was officially founded in March 2014 and unexpectedly obtained almost 8% of the votes in the European elections that same year. Until 2016, it experienced growing electoral support and gained government positions at the local and regional levels. In the December 2015 General elections (and the repetition in June 2016), polls suggested that the party could surpass the Socialist party as the main party on the left, but they fell short by 1.5% of votes. Since then, declining electoral support and internal conflict have characterised the party. If we compare their result in the 2016 and November 2019 General election, they have lost 2.5 million votes and half of their MPs. Despite these results, they joined the first-ever coalition government with the Socialist party (PSOE) in January 2020. Additionally, internal conflict has been salient, including growing factionalism, setbacks in its internal organisation (Meloni & Lupato, 2023), and the creation of new parties within the same political community that also affected electoral performance. For our purposes, this context is especially relevant because, as we will discuss in the next section, political parties in Spain are extremely dependent on public funding, which is mainly based on electoral results.

The Spanish political context is also important. The emergence of Podemos, together with the liberal party Citizens (Ciudadanos - C's), implied a deep change in the format and mechanics of the Spanish party system (Orriols & Cordero, 2016; Simón, 2020). Spain could be characterised as an imperfect two-party system, as the Popular Party (PP, conservative) and the Socialist party received almost 84% of the vote and 92% of the seats in the 2008 elections. Then, 2015 elections showed a systemic change, moving to a multiparty system, that evolved into a bipolar competition (the right bloc with the PP, C's, and far-right party Vox since 2018, and the left block with the Socialist party and Podemos). Instability grew, and government formation was increasingly difficult. Thus, in the 2015-2019 period, Spain had four general elections.

For analysing microcredits, we relied on different sources. To study the logic, implementation, and process of microcredit, we used Podemos' official documents, including the party's Statutes and the content of the specific website on party financing and microcredit as well as twelve newsletters on microcredits sent by the party. This analysis allowed us to observe how the party frames microcredit, by conducting a content analysis of the newsletters (see Table 1), which includes variables dealing with the political context, the explanation of how microcredits work, the presence or absence of mentions of banking debt, campaign costs, the role of members, transparency, and finally, whether the newsletter had any supporting materials such as videos or images.

### **Table 1. Podemos' Newsletters on Microcredit**

<b>Date</b>	<b>Subject/message</b>	<b>Type of election</b>
21/04/2014	Financing urgency	European
28/10/2015	Microcredit-Podemos subscription	General
28/10/2015	Microcredit campaign "I don't have a Bárcenas"	General
13/11/2015	"#InvestInYourFuture Invest in you"	General
30/10/2018	"Wherever you are from, collaborate with your microcredit in Andalusia"	Regional (Andalusia)
06/03/2019	Campaign "PodemosWithoutBanks. We are free thanks to you"	General
25/09/2019	"Some things will not return. Your microcredit, yes"	General
23/10/2019	€2,560,000 euros of microcredits repaid. Microcredits campaign for the 10N elections "#CumplimosContigo <sup>1</sup> "	General
28/02/2020	You are essential for a left-wing government to also reach Galicia and Euskadi	Regional (Galicia & Basque Country)
20/01/2021	Heading to 14F, microcredit campaign in Catalonia "#TuMicrocreditoSíVuelve <sup>2</sup> " (with error in links. Sent correction the next day)	Regional (Catalonia)
27/01/2021	Support for microcredit campaign in Catalonia, with tutorial and link to the web	Regional (Catalonia)
30/03/2021	"Urgent: you can now lend your microcredit to support Pablo Iglesias campaign and kick Ayuso out"	Regional (Madrid)

Source: Authors' elaboration

We analysed the effective amount of money raised by relying on data provided by political parties in their annual Audit Memorandum from 2014 to 2021, as parties are required to present their financial and economic data by Law 19/2013 on Transparency and Good Government. We also referred to reports issued by the Court of Audits (*Tribunal de Cuentas*), which monitors political parties' finances (including campaign spending) in all the election campaigns. These data allowed us to observe how campaign spending is distributed and the relevance of microcredit for party financing. In addition, the reports issued by the Court of Audits – which include specific mentions (and warnings) on the regulatory problems of microcredit, and the recommendations of the Congress Commission on the Regime and Financing of Political Parties, which were approved by the Parliament on 2 February 2017 – allowed us to discuss on the regulatory problems and parties' positions on this issue, showing the challenges of adapting the regulation of electoral funding to digital campaign mechanisms.

#### 4. Party financing in Spain and the case of Podemos

The financing system of Spanish political parties shares many common elements with other European democracies. However, compared to other European countries, Spanish parties receive generous funding from the State (Ignazi & Fiorelli, 2022; Piccio, 2014;

<sup>1</sup> We fulfil our promise to you.

<sup>2</sup> Your microcredit does come back.

Rodríguez-Teruel & Casal-Bèrtoa, 2018), which reduces the incentives for private funding.

Party financing, corruption, and high debt contribute to the legitimacy crisis of Spanish parties<sup>3</sup>. Despite these problems, the financing model has been surprisingly stable (Rodríguez-Teruel & Casal-Bértoa, 2018) and there are concerns about "the effectiveness of party funding regulation in minimizing unfair, privileged, or undue access of moneyed individuals, large enterprises and organized criminals to state power" (Jiménez & Villoria, 2018, p. 350). Nevertheless, the regulatory framework has improved since the 2007 Law on Party Financing and subsequent reforms, especially in 2015 (Casal Bertoa & Rodríguez Teruel, 2017). For instance, debt forgiveness was only banned in 2015 (Maroto Calatayud, 2018, p. 704). The approval of Law 19/2013 on Transparency and Good Government has improved access to financial data of parties, which are obliged to provide proactive information on organisational and economic issues on their websites. When the party system changed in the mid-2010s and new parties emerged, party financing, corruption, and the relationship between parties and banks became critical issues. The relevance of corruption scandals and party financing peaked in 2018, when, for the first time since the democratic transition, Mariano Rajoy's Popular Party government fell after a vote of non-confidence presented by PSOE's leader, Pedro Sánchez, due to a court judgment that considered the PP as the beneficiary of an extended corruption scandal (El País, 2018).

In this context, we argue that Podemos made transparency in their finances a salient issue to distinguish itself from traditional parties. Not surprisingly, new parties such as Podemos and Ciudadanos ranked high in transparency in different studies<sup>4</sup>, providing a comparative electoral advantage against traditional parties (Tonhäuser & Tavanés, 2020, p. 580). As this approach is shared by new challenger and digital parties, such as the Italian Five Stars Movement (M5S), we must highlight their differences, as the M5S refuses public financing for parties while Podemos builds on it its organisation<sup>5</sup>.

When analysing the financing of Podemos, recent studies have focused on placing it within the broader financing regime and regulations of the Spanish system, pointing out the growing dependence of Podemos, like other traditional Spanish parties, on public funding. This supported the scepticism addressed by Piccio and Van Biezen (2018) on the cartelization hypothesis regarding finance, as once a party achieves the representation threshold, it also benefits and becomes highly dependent on public subsidies. However, the first step of obtaining a good electoral result, votes, and representation, may be difficult without financial resources, and technology and digitalisation have helped to overcome this limitation.

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<sup>3</sup> Data from the *Centro de Investigaciones Sociológicas* shows how public opinion consider parties, politicians, and corruption among the most relevant problems in Spain. See [http://www.cis.es/cis/export/sites/default/-Archivos/Indicadores/documentos\\_html/TresProblemas.html](http://www.cis.es/cis/export/sites/default/-Archivos/Indicadores/documentos_html/TresProblemas.html). Last accessed on 20 October 2022.

<sup>4</sup> See Transparencia Internacional España ([https://transparencia.org.es/wp-content/uploads/2017/06/evaluacion\\_nivel\\_transp\\_partidos-junio-2017.pdf](https://transparencia.org.es/wp-content/uploads/2017/06/evaluacion_nivel_transp_partidos-junio-2017.pdf)), and Haz Fundación (<https://www.hazfundacion.org/rankings-de-transparencia/sector/partidos-politicos>), for 2017.

<sup>5</sup> They proposed a referendum for abolishing public financing of parties (Blog delle Stelle, 'Referendum del Movimento 5 Stelle per l'abolizione dei finanziamenti ai partiti', 19 May 2011), and they constantly denounce the public financing of parties. Nevertheless, a referendum was held in November 2021 and the 72% of the respondents agreed that the party could receive indirect public funding from personal income tax declarations. We thank Daniela Piccio for pointing out this change.

In addition, the relationship between Podemos and its financing goes beyond the instrumental function, as it also plays, at least rhetorically, an ideological role for the party. As stated on their website<sup>6</sup>: "we consider that financial independence and transparency in parties is a necessary condition for the proper functioning of democracy," aligning with the party's ideas, which links the way the party is financed with its anti-elitist and democratic discourse.

This is also codified in their latest statute (Podemos 2021, art. 80 a), which prohibits banking loans. While it could be argued that the party may have difficulties accessing banking financing due to their policy claims, it is also true that other traditional parties, such as the Communist party, have traditionally obtained banking loans. So, what is the rationale behind microcredit?

## **5. Microcredit as a digital and ideological tool**

Microcredit is a digital-native financing mechanism that involves a four-step process similar to micro-donations. The lender subscribes to it, provides his/her/their personal data (as required by law), receives all the necessary documentation (including the micro-credit civil contract), and makes the loan (through a bank transfer, not a payment gateway). Around one year later, the loan is returned by the party. The process is almost fully digitalised. One specific characteristic of microcredit is that, even though it is a micro-loan, the party does not pay any interest rate. While this element reinforces the political purpose and commitment of the participants, it may pose some legal problems. According to Spanish electoral legislation, financial institutions should grant credits to political parties with market-based conditions to prevent undue political influence and more favourable treatment by financial institutions (art. 4.4 Law 8/2007). Additionally, credit should, in principle, provide some financial benefit to the lender and be declared as a benefit for tax-related matters. Although no problem has arisen from these issues in practice, they can potentially present regulatory and practical problems.

Our first expectation (E1) focuses on how party financing is another relevant mechanism to differentiate Podemos from traditional and pro-establishment parties. The party stresses the three core principles that drive its financing: innovation, independence, and transparency. With this purpose, Podemos has developed participatory ways of financing, inspired by the values of the collaborative economy for making citizens co-participants in the financing of specific projects. These are the cases of crowdfunding and microcredits. Hence, while some instrumental arguments could play a part, it is also true that the party inserts its financing for electoral campaigns also as an ideological issue. Participatory financing, together with other internal democratic innovations, has played a major role in distinguishing Podemos' behaviour compared to other parties, also in ideological terms.

Launching a new microcredit campaign, the party sends a communication via email. Examining these communications is interesting because they allow the party to develop different political messages. It can be a tool for mobilising potential voters and developing a digital campaign, creating different hashtags for Twitter, and highlighting the distinctiveness of Podemos' financing model. We have collected twelve newsletters since

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<sup>6</sup> See <https://podemos.info/financiacion/>. Last accessed, 20 October 2020.

2014, and Table 2 shows various issues covered in these communications. These include specific mentions of the political context, how microcredits work, critical mentions of banks promoting (non-)banking financing, reduced costs of campaigns, the role of citizens, participation, and transparency, as well as the inclusion of supporting material such as videos or photos.

**Table 2. Microcredit communication through newsletters**

Election	Political context	Logic	Banks - Debt	Campaign Cost	Role of members	Participation & Transparency	Supporting materials
General	2 (33,3%)	4 (66,6%)	5 (83,3%)	3 (50%)	6 (100%)	5 (83,3%)	3 (50%)
Regional	4 (80%)	5 (100%)	5 (100%)	0	5 (100%)	4 (80%)	3 (60%)
EU 2014	0	1 (100%)	1 (100%)	1 (100%)	1 (100%)	0	1 (100%)
<b>Total 12</b>	<b>6</b> <b>(50%)</b>	<b>10</b> <b>(83,3%)</b>	<b>11</b> <b>(91,6%)</b>	<b>4</b> <b>(33,3%)</b>	<b>12</b> <b>(100%)</b>	<b>9</b> <b>(75%)</b>	<b>7</b> <b>(58,3%)</b>

Source: Authors' elaboration.

Even though Podemos has undergone changes in terms of organisation and institutionalisation, the way they communicate about microcredits and the issues they raise remains similar. Their communication almost always includes the logic of microcredits, references to banks, the role of members, and the idea of participation and transparency. This has been a constant of Podemos' narrative since their first election in 2014, even though microcredits did not exist at that time. In their newsletter from April 21, 2014, the party invoked citizens' support, stating:

"We do not ask any bank for money for maintaining our political independence, so we only have citizens' support to face the many expenses and costs that an election entails."

From the very beginning, there was an ideological stance of not relying on banks for financing, and Podemos presented itself as a different party.

"You know that in Podemos banks do not get their hands in. They cannot buy us, and thanks to your effort, we are free. Contrary to wastefulness, irregular financing, and banking favours, Podemos has just one creditor: citizenship. (...) With no banking debt, we have been able to make our campaigns an example in terms of saving, participation, inclusion, and diversity." (Newsletter 25 September 2019, General election).

Moreover, the Podemos newsletters referred to the party's 'financial austerity' in campaign spending. In a newsletter from October 28, 2015, the party stated:

"Our campaigns are cheap, but, as you know, without money we cannot compete with the big organisations of the traditional parties, which do not mind continuing to borrow from the banks because they already owe them

more favours than they will ever be able to pay. In Podemos, we only want to depend on you, and in our transparency portal, you can see how each euro you invest in Podemos is spent".

Lastly, microcredits are also used as a communication tool. For example, during the 2021 Regional elections in Madrid, there was a call to action for "kicking Ayuso out" (the current PP's President of the Region), as well as the need for left governments in Galicia or the Basque Country. References to corruption are common, such as in the 2015 campaign titled "I don't have a Bárcenas", which alluded to Luis Bárcenas, the former Treasurer and Senator of the Popular Party, who is now in prison due to different corruption scandals and illegal financing. The newsletter included videos that explained the differences between Podemos' financing and that of the PP. Moreover, this supporting material is also used in social media, with a dedicated website, videos on YouTube, and a specific Twitter hashtag. This makes the microcredit campaign a rather powerful communication tool, helping to differentiate the party from traditional ones.

## 6. Microcredits as a participatory tool

As we have discussed, as microcredit is based on members' and sympathisers' participation, we should expect a relation between the number and amount raised through microcredit and the specific political context (E2). For exploring this participatory component, Table 3 shows the data on microcredit for different types of elections.

**Table 3. Microcredit data and elections (2015-2021)**

Type of Election	Date	N micro-credits	Funds	Mean contribution (€)	% Votes <sup>7</sup>
<b>General</b>	2015 (Dec.)	10.381	2.332.659,00	224,70	20,68
	2016 (Jun.)	4.814	1.235.300,00	256,61	21,15
	2019 (Apr.)	7.711	1.725.735,40	223,80	14,32
	2019 (Nov.)	12.733	2.683.419,51	210,75	12,86
<b>Regional</b>	13 regions (May 2015)	8.345	2.076.450,00	248,83	
	Basque Country 2016	191	50.200,00	262,83	14,86
	Catalonia 2017	1.288	340.400,00	264,29	7,46
	Andalusia 2018	1.778	345.951,77	194,57	16,18
	13 regions (May 2019)	2.369	584.623,00	246,78	
	Basque Country 2020	1542	328.919,45	213,30	8,05
	Galicia 2020	2.036	452.112,01	222,05	3,94

<sup>7</sup> The share of votes includes the votes for Podemos and different (regional) electoral coalitions including En Comú Podem, Podem Compromís (2015 and 2016), Podemos En Marea, Anova, EU (2015 and 2016), and Podemos EU (2019). Since 2016, Podemos and left party Izquierda Unida have an electoral coalition.

	Catalonia 2021	1.880	514.710	273,78	6,87
	Madrid 2021	9.984	1.819.371	182,22	7,24
<b>Local</b>	Local (26 May 2019)	572	113.801,00	198,95	
<b>European</b>	May 2019	600	133.410,01	222,35	10,07%
<b>Non identified microcredits</b>	In 2019	176	26.845	152,53	

Source: Authors' elaboration, based on Podemos annual Audit Memorandum (2014-2019). Retrieved from <https://transparencia.podemos.info/cuentas-claras/partido/cuentas-anuales>. Last accessed, 20 October 2022. Electoral data (for Congress) from the Ministry of Interior.

The relation between microcredit and the political context is twofold. Firstly, it is linked to perceived high electoral support for the party, and secondly, it is due to strong political polarisation. In the 2015 General election, according to electoral polls, the possibility of overcoming the Socialist party and becoming the most-voted party on the left was plausible. This high support is reflected in the high number of lenders. However, Podemos' electoral results have been declining since then, and their strategic decisions have been internally divisive. The 2016 electoral election involved an internally contested electoral coalition with the left party United Left (Izquierda Unida) and other left-wing groups. The electoral results were not as expected, and the newly born coalition lost one million votes compared to the sum of each party's results in 2015 and did not surpass the Socialist. The number of microcredits fell over 50%, and even if they increased in 2019, they were still 25.7% lower than in 2015.

The highest number and amount raised on microcredit correspond to the November 2019 General elections. This can be due to the possibility of joining the government (as it happened), but also to a very polarised political context, including the rise of the far-right party Vox, which made the incentives for participating higher. Growing polarisation, especially regarding the emergence of the far-right party, seems to have mobilised support through microcredit. This also happened in the 2021 Regional elections in Madrid, which Podemos framed as "Democracy vs. Fascism" (García Lupato, 2021). Even if Podemos' results were low, the weakest party in the regional parliament, they raised almost twenty times more than in the 2019 election (around € 105.000 and 481 participants).

As shown in Table 3, the average contribution for microcredit in general elections is around €200-250. However, two specific aspects are not covered in the data. Firstly, there is no information on the characteristics of lenders, which is important in determining whether microcredit participants are sympathisers or public officials. In the latter case, microcredits should be considered more as another way to implement a type of party tax rather than a participatory tool. The variability of participants in microcredits shows, however, that sympathisers play a significant role. Secondly, in the party's memorandum, there is no data on the range of microcredits. The party provides these disaggregate data for donations (see, for example, Podemos's Memorandum 2021, p. 29), distinguishing also between regular donors and public officials' donations, and also includes a specific report on those individuals donating more than €5.000, but these data are not available for microcredit. More clarity on who the lenders are and how much they lend could provide a better assessment of the real participatory role of microcredit.

## 7. Electoral expenses, parties' debt, and the effects of microcredits

The third expectation regarding microcredits relates to the use of microcredit and the structure of sources used for financing electoral campaigns (E3). As shown above, due to the nature of microcredits, we could expect lower electoral spending and banking debt, which further differentiates the party from traditional ones.

Table 4 presents the overall declared resources for the four biggest nationwide parties during the 2015 and 2019 General elections<sup>8</sup>. Several issues are relevant. Firstly, private resources (donations for electoral campaigns up to 10,000€), are almost inexistent in Spain. Consequently, established parties rely on the advance of the State's electoral subsidies (up to 30% of the final amount received by the party for the previous election), banking credits, and the party's own resources. We can observe an interesting difference between Podemos and the rest of the parties. Podemos does not rely on banking credit and their own resources (where microcredits are accounted for) constitute the biggest share of the resources used (86.71% and 75.15% for 2015 and 2019 respectively). On the contrary, the two biggest and traditional parties, PP and PSOE, heavily rely on banking debt to finance their campaigns (around 50% for the PP and 60% for the PSOE). The other new party, C's, also relied on banking credits for 2015 (99,2%) but reduced it for 2019 (39%) increasing the role of their own resources (from 0.4% in 2015 to 46.1% in 2019)<sup>9</sup>. As expected, Podemos' financing of electoral campaigns differs from the structure of resources that characterises Spanish parties for financing elections.

**Table 4. Electoral resources of the four major Spanish parties (2015-2019, in euros)**

	<b>Cs</b>	<b>PP</b>	<b>PSOE</b>	<b>POD</b>	<b>Total resources (all parties)</b> 10
<b>2015</b>					
<b>Private resources</b>	30.360	0	0	0	47.360
<b>Banks' credits</b>	7.662.574	10.714.960	10.005.601	79.600	33.923.440
<b>Advance of electoral subsidies</b>	0	6.506.956	5.656.455	452.353	16.383.040
<b>Own resources</b>	31.600	2.962.319	658.005	3.479.625	7.391.540
<b>TOTAL</b>	<b>7.724.534</b>	<b>20.184.238</b>	<b>16.320.064</b>	<b>4.011.429</b>	<b>57.745.410</b>
<b>2019 (April)</b>					
	<b>Cs</b>	<b>PP</b>	<b>PSOE</b>	<b>POD</b>	<b>Total Resources (All parties)</b>
<b>Private resources</b>	10.375	0	29.508	0	47.258
<b>Banks' credits</b>	4.762.316	7.718.411	10.514.789	0	23.694.353

<sup>8</sup> For the sake of data clarity, our analysis does not delve into the details of the June 2016 and November 2019 electoral repetitions, as they do not offer significant news beyond the observation of a considerable reduction in expenses in both cases.

<sup>9</sup> To calculate the resources, we have merged data from various regional coalitions. For the Popular Party, it includes Foro Asturias, Partido Aragonés, and Unión del Pueblo Navarro (in 2015), and Foro Asturias and Navarra Suma (in 2019). For the PSOE, it includes PSOE-Nueva Canarias + PSOE-PSC in 2015, and only the Catalan federation in 2019. For Podemos, it includes Compromis, En Comú Podem, En Marea, Ahora Podemos Alto Aragón, and En Comú Podem + Mareas in 2019.

<sup>10</sup> In addition to the parties and coalitions grouped in the four parties analysed, there were eleven more in the 2015 report and fifteen in the 2019 report.

<b>Advance of electoral subsidies</b>	1.806.614	3.917.934	3.840.038	1.738.148	12.351.602
<b>Own resources</b>	5.625.115	4.559.972	2.267.810,13	5.104.756	22.805.625
<b>TOTAL</b>	<b>12.204.422</b>	<b>16.196.308</b>	<b>16.752.145</b>	<b>6.792.905</b>	<b>58.898.839</b>

Source: Authors' elaboration with data from Court of Audits electoral reports (Reports 1183, 1216, 1380, and 1425).

Table 5 provides data on the maximum spending capacity for electoral campaigns. During general elections, the Electoral Campaign Law (LOREG 5/1985) sets a maximum limit of campaign spending calculated by multiplying €0.37 by the number of inhabitants of each electoral district where each party presents a candidacy. The maximum limit varies depending on the party's national reach. The two traditional parties have higher ratios, meaning they spend more money on the campaign than the newer parties. Podemos has the lowest and most stable ratio.

**Table 5. Ratio between money spent and maximum spending limit**

	CIUDADANOS	PP	PSOE	PODEMOS
2015	20%	75%	63,5%	19.1%
2019	35.6%	57%	64,6%	22.2%

Source: Authors' elaboration from reports of the Court of Audits.

As we expected (E3), Podemos ran 'cheaper' campaigns spending proportionately less than its competitors. There may be different reasons for this. As a movement and digital party, Podemos may use digital tools more intensively for the electoral campaign, including social networks and digital advertising, which are usually cheaper than traditional advertising. Its anti-elite discourse makes it inappropriate (and difficult) to rely on banking credit. Strategically, the party may focus their campaign on some specific areas, where they have a higher chance of winning seats, normally related to urban areas, helping to reach a wider audience at smaller costs, while the larger parties have a presence in all territories. However, we can also argue that financing the campaign through microcredit, and the impossibility of incurring banking debt, provides greater incentives to spend less, or at least to spend only the money they can effectively raise and then return. Ideologically, as we argued above, the party has emphasized the cost of politics, which is consistent with a less expensive campaign.

Finally, we expected Podemos to have a reduced banking debt, which is also forbidden by their statutes. Table 6 displays the declared debts of political parties with credit institutions only. Podemos has no banking debt, while the rest of the parties are heavily indebted. This is particularly significant considering that Spanish parties strongly rely on state funding, which is linked to electoral performance. Even though state subsidies have declined due to Podemos's declining electoral performance, the party's strategy of financing elections through microcredit may have allowed the party not to incur banking debt, strengthening autonomy in its institutionalisation (Barberà & Barrio, 2019, p. 266).

**Table 6. Parties' debts with banks (2015-2019) (in euros)**

	PSOE	PP	PODEMOS	CIUDADANOS
2019	46.276.559,15	37.874.585,25	21,00	7.931.410,50
2018	40.268.817,60	25.050.243,01	0,00	7.540,90
2017	50.058.403,93	24.413.171,00	0,00	43.128,32

2016	69.939.688,38	35.683.413,86	0,00	6.105.704,18
2015	75.317.553,32	47.484.857,87	0,00	8.197.281,29

Source: Authors' elaboration from parties' websites.

## 8. Regulation and new forms of party financing: The problem of microcredits

When Podemos first implemented microcredits, Spanish laws did not specifically regulate participatory financing. In contrast to the US, which had a more open regulatory spirit and creative uses of the Internet (Weintraub & Levine, 2009), regulation in Spain has struggled to adapt to these innovations. Despite this regulatory gap, microcredit is now used by different (left) parties, notably the Socialists since April 2019, and is supervised by the Court of Audits.

Since 2015, the Court of Audits has explicitly monitored the number, amount, and procedure of microcredits used by those parties (in their electoral campaign spending audits and the parties' annual financial statements).

They verified if lenders were correctly identified, if the amount lent complied with the maximum contribution allowed by the electoral legislation on private donations for electoral campaigns, and if each microcredit was correctly formalised, including the conditions for lending the money, the interest rate, and the expiration period. This lack of specific regulation and some technical problems implied that in the first implementation of microcredits in the 2015 General election, Podemos used a different bank account from the specific one where all the electoral contributions must be made (Tribunal de Cuentas, 2016, p. 63-64).

In the November 2019 General elections, the Court of Audits addressed an interesting concern regarding microcredit. The Court monitored the microcredits of nine individuals (for a total of €60.600), in case the party did not return them because then they would be considered electoral donations and, therefore, would have surpassed the maximum amount allowed by the law. The party demonstrated that they had returned the microcredit to each participant<sup>11</sup>. This points out a possible relevant problem of microcredit. If they are not returned, they are considered donations, but the law distinguishes between donations for the functioning of the party (limited to €50.000) and donations for electoral campaigns (limited to €10.000). If we consider the time between financing the electoral campaign, the return of the microcredit, and the Court of Audits' control, this could be a potential problem regarding the financing of electoral campaigns and donation limits. Since 2017, Podemos has limited all types of donations to €10,000, and in their Transparency Portal, the party provide the names of those persons that have donated more than €5,000 and are not elected officials of the party, but the lack of specific regulation for microcredits may provide loopholes for misuse.

The Court of Audits, in successive recommendations, has claimed that it would be necessary to further regulate these new financial mechanisms (Tribunal de Cuentas, 2016, p. 86). In 2019, they urged to regulate microcredit stressing different aspects: establishing

<sup>11</sup> The party's Annual Audit Memorandum stated that all microcredits have been returned.

the same limit to microcredits as for electoral private contributions; requiring that microcredits be paid into the established electoral account like every other campaign's resource; the need for fixing a maximum period for repayment; and finally, regulating the cases where the lender renounces repayment, which should then be considered as a donation (Tribunal de Cuentas 2019, p. 77-78). Previously, the Court (Tribunal de Cuentas, 2016) proposed to equate (as in art. 4.4 of the Law of Political Parties Financing) the waiver of microcredits and the ban on debt forgiveness. Due to this lack of specific regulation, the Court approved an 'Instruction regarding the audit by the Court of Audits of the accounts of the elections to the General Elections of April 28, 2019' which equated microcredits (and crowdfunding) to other funds used for electoral expenses. In addition, the Court has stated that it will monitor the effective repayment of microcredits during its annual audit of political parties' finances.

Lastly, the Court issued a motion that addressed participatory financing, including crowdfunding, micro-donations, and microcredit. The Court emphasised the essential difference between microcredit and micro-donations, stating that "they are two figures that present a different legal nature" (Tribunal de Cuentas, 2021b, p. 14). Technological implementation also plays a relevant role. The difference between traditional donations and microdonations is not based on the amount of money donated but rather on its implementation through a third party, the payment gateway. This can be problematic as it can make more difficult to control party financing, as anyone, entitled or not to make a donation, may do so with a credit card, and it is difficult or impossible to prove the donor's identification, name, or address.

However, participatory financing is contemplated under the same parameters as traditional donations (art. 4.2 h, Law of Party financing). This implies some fundamental contradictions. The law clearly states that donations cannot be a) anonymous; b) have a purpose-determined nature; and c) be reversible (Palma Ortigosa 2019). Hence, it may go against some of the principles of crowdfunding and microcredit, as they are both purpose-determined and can be reversible. Regulation of new forms of digital financing should require specific regulations rather than a mere adaptation of current legislation applied to other forms of offline funding.

This is not just a legal issue, but also a political one. During the XII Legislature (2016-2019), the Congress established a commission to analyse political parties' financing, demonstrating its relevance and politicisation. The Congress' Sub-Commission on the Regime and Financing of Political Parties was approved by the Parliament on 2 February 2017 with the votes of PSOE, Podemos, and Ciudadanos. Among the many recommendations approved, the Sub-Commission indicated that new forms of financing, such as crowdfunding and microcredit, should be recognised and regulated. Point 28 of the Resolution (Congreso de los Diputados, 2018, p. 93) stated that even though the classification of the current different sources of parties' financing is a good starting point, "a more developed regulation is necessary that refers to new phenomena that have taken place in recent years in the field of financing political formations, such as microloans".

According to the Sub-Commission, micro-donations and microcredits should be regulated to ensure transparency, traceability, and adherence to existing regulations concerning private donations. However, criticism was also clear the Resolution. Some parties are deterred from using these mechanisms due to the lack of regulation, as highlighted by the Treasurer of Ciudadanos (Carlos Cuadrado Arroyo) and the Basque Nationalist Party

(Raquel Barañano Gurtubay). On the other hand, MP Eloy Suárez Lamata (PP) argued that these financing mechanisms are illegal as they are not specifically regulated by law.

Despite Podemos having used microcredits (and crowdfunding) since the party's foundation in 2014, and other parties beginning to use them too, although the Court of Audits is monitoring them, and there is a parliamentary agreement on the need of regulation, the law has not been fully adapted to regulate these new digital mechanisms. This may negatively impact the reliability, transparency, and implementation of the new financial mechanism, and deter other parties from using it.

## **9. Conclusions**

In our exploratory analysis, we have examined the logic, impact, and regulatory problems of microcredit in Podemos. Spain provides an interesting example, as parties are strongly regulated, and public funding is especially high. In a crisis of legitimacy of political parties, our analysis of microcredit described the development of a new digital financing tool in a specific European, party-based, and highly regulated context.

The analysis has showed the importance of party financing for analysing new challenger parties and some of its effects. Firstly, it highlights the importance of examining how parties are funded for a better understanding of the emergence and differentiation of new parties. Focusing on party funding can provide interesting cases for analysing the equalisation and normalisation hypothesis and the impact of digitalisation on new and established parties. As in Germany (Jungherr, 2016) or the US (Hansen, 2009), how parties are financed also depends on the type and ideology of parties. The emergence and diffusion of microcredits in Spain provide a good example, as microcredits have been adopted by other left parties, but not right ones. Since 2019, the Socialists have implemented microcredits for electoral campaigns, but offering a very competitive interest rate (2%-2.5%). Furthermore, in October 2020, the party launched its Plan on Ecological and Digital Transformation, a multi-year initiative also financed through microcredits (with a 3% annual interest rate, for three years).

Secondly, microcredits are essentially different from crowdfunding, as the former is a loan while the latter is a donation. We can further explore their essential difference. While crowdfunding is a private source of financing, it is not so clear for microcredits. At first, and legally, they are considered private resources. However, especially if microcredits are limited to electoral campaigns, they are returned with the State's reimbursement, blurring the distinction between private and public funding. This may limit the impact of microcredit as a private source for funding, the link with sympathisers, and the reduction of the relevance of public funding for the party.

Thirdly, the diffusion of microcredit shows the emergence of a new type, not limited to electoral campaigns, not dependent on public transfers, and granting very competitive interest rates. While Podemos' logic for microcredits is also ideological, in the case of the PSOE it seems to be conceived as another financial resource, which coexist with banking financing and other possible resources. We may be witnessing the emergence of party funding mechanisms that provide economic benefits to participants, in line with equity crowdfunding in the corporate sector.

Fourthly, the logic behind microcredits is embedded in Spanish political culture, which lacks a tradition of private donations for funding campaigns and has specific legislation governing how parties and campaigns are funded. This raises the question of whether this new financial mechanism can be adopted by political parties in other countries, or if it is a context-specific initiative.

Lastly, this innovation has provided an example on how regulations struggle to adapt to digitalisation. Adapting previous laws without revising also the underlying logic may be not sufficient (and can deter) the development of different digitalisation initiatives. In the case of microcredits, it may reduce its perceived legitimacy and highlight certain problems of their implementation and monitorisation, including issues such as complying with campaigns' limits for donations, who donates, or the treatment of personal data, among others. In a very sensitive issue such as electoral and party funding, this can be problematic.

To conclude, microcredit implies an innovation and a digital-native way of participatory financing. It shows the relevance of analysing political parties' digitalisation focusing also on party finance, funding, and the regulatory problem for a better understanding of the impact and consequences of technology for parties.

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