The study examined the socio-economic factors influencing the capacity of small and medium enterprise (SMEs) to alleviate poverty in Southwest Nigeria. Primary data were used for this study. The target population was (SMEs) in three states(Lagos, Ogun and Oyo) in the Southwest region of Nigeria. The choice of these three states was based on size and concentration of SMEs. Data were collected using questionnaire from a sample of 700 SMEs using systematic random sampling procedure. The data collected were analysed using appropriate descriptive statistics and inferential techniques. The results showed that majority(75%) of surveyed SMEs operating in the Southwest were microenterprises employing less than 10 workers while only (19%) and (6%) of the respondents engaged in small scale and medium scale enterprises employing between 10 and50 workers respectively. The results also showed that there was substantial increase (133%) in number of SMEs owners that have grown in terms of employment generation from microenterprises to small scale and medium firms over the span of 5 years. The study concluded that business registration, business size, nature of business, sources of capital were the major factors determining both income and employment generation potentials of SMEs.